The Economist

20010303

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

NEWS ANALYSIS

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS

RESEARCH TOOLS

CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition March 3rd 2001

Gambling man
Already George Bush is bold enough to take risks. Some may prove too big ... More on this week's lead article

News Summaries
Business this week
The world this week

Leaders
Gambling man
Don't mention the R-word
They're burning animals again
Global capital rules, okay?
Schrempp's last stand
The elephant moved

Letters
On energy, California, robots, George Bush, beer, patents, trade, aircraft, trust, trust, Charles Schumer, apathy and cynicism, earthquakes, European tax harmonisation

Special
DISPLACED PEOPLE
When is a refugee not a refugee?

United States
The great exploding tax cut

Trade policy
Whoduzzit?

The Democrats and the Clintons
Is it time to say goodbye?

Lexington
Bipartisanship by dinner party

St Louis
Mayor's nest

A new Florida recount
Bush wins: official

A storm in a latte-mug

Oh, brother

The Americas
Subcomandante Marcos: the Mexican grand tour

Brazil loses a political kingpin

Ottawa
The boom is an echo

Insults and jitters in Cuba

Peru
A woman's touch

Asia
India's breakthrough budget?

Wahid wanders while Borneo burns

South-East Asia's press
Publish and be chastised

Kazakhstan
In defence

China
The same to you, too

Europe
From bad to worse, down on the farm

Football
The game's over—almost

France
No hero he

Charlemagne
Neil Kinnock, Europe's Anglo-Saxon reformer

Macedonia
Passing clouds?

Turkey
Nervous

Yugoslavia
Closing in

Britain
Plague island

Yorkshire's train crash

Auction houses
Bid for the top

Mind their language

Bagehot
See you in court

Crime
Straw man

Talent spotting

Planning
By-passing the law

The budget
Gordon's cash stash

Articles flagged with this icon are printed only in the British edition of *The Economist*

International
Welcome to the old Kuwait

Uganda
Will Museveni win yet again?

Israel
The law and the uprising

Previous print editions
Feb 24th 2001
Feb 17th 2001
Feb 10th 2001
Feb 3rd 2001
Jan 27th 2001
More print editions and covers »

Subscribe
Subscribe to the pri
Or buy a Web subsc
full access online
RSS feeds
Receive this page by

Advertisement

Business
Schrempp's repair job

Porsche
Motoring

Bought in the act

Japanese semiconductors
Lean and clean

Face value
Leading the cause

Not cleared for take-off

Mobile phones in India
Another kind of net work

Wine
In vino profitas

Electricity markets
Beyond the pool

The Microsoft trial
Judging the judge

Business Special
EU FINANCIAL REGULATION
A ragbag of reform

Finance & Economics
Piecing China's markets together

Sauna sleaze

Bank reform in Japan
Distress

Japan's economy
Stalled, or worse

Economics focus
From investment boom to bust

The European economy
Odd man out

The London Stock Exchange
Clearer

Tax beast

European trade
Zero-sum?

Stockmarkets in America
Confidence tricks

Science & Technology
Just press print

Eliminating dams
Not so fast

Stem cells
Loose change

The cost of fur

Books & Arts
China's lost decade

American lives
Left and right

British politics
More is less

World politics

American poetry
Word as image

Still blue

Farming and history
Farmers' curse

Dark matter

Obituary
Donald Bradman

Economic Indicators
OUTPUT, DEMAND AND JOBS
COMMODITY PRICE INDEX
QUALITY OF LIFE
PRICES AND WAGES

Financial Indicators
MONEY AND INTEREST RATES
FOREIGN AID
TRADE, EXCHANGE RATES AND BUDGETS
STOCKMARKETS

Emerging-Market Indicators
TRANSPARENCY
FINANCIAL MARKETS
ECONOMY

Advertisement

Advertisement

Classified ads

Jobs
Team Leader - Papua New Guinea Sub-National Strategy
TEAM LEADER Papua New Guinea Sub-National Strategy - New Aus....

Business / Consumer
WSI Internet - Own a #1 rated Franchise - Become a Fully Certified Professional Internet Marketing Consultant - High Profit Margins, Recurring Revenues,

Tenders
Tenders Notice
TENDER NOTICE The University of Antioquia (a public university located in Medellín, Colombia) i....

Jobs
ICT Opportunities
OECD: We have several openings for ICT professionals, such as: Business Process Ana....

Business / Consumer
Development Partner Wanted
Development Partner wanted Investor wanted for Turkish unit developm....

Tenders
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Business! Profit....

Sponsors' feature About sp

Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Business this week

Mar 1st 2001
From The Economist print edition

Decline and fall

A steep fall in **Japan**'s industrial production—down 3.9% in January compared with the previous month—sent the Nikkei index reeling. It fell to its lowest for 15 years in intraday trading and ended at its weakest in 28 months. The Bank of Japan responded with a cut in interest rates, reducing the overnight call rate from 0.25% to 0.15%.

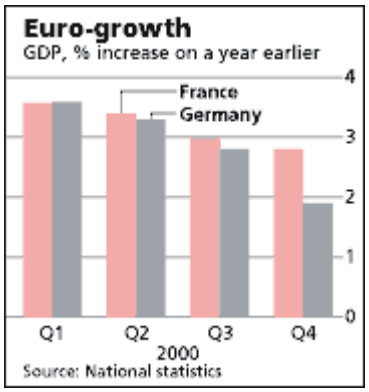
See article: The Bank of Japan shaves rates

America's economic gloom continued. Fourth-quarter growth in GDP was revised down to 1.1% from 1.4% at an annual rate. American consumer confidence hit its lowest point since June 1996 after suffering its fifth monthly drop in a row in February, according to the Conference Board.

See article: Confidence and the Nasdaq

Economic conditions in **Europe** are mixed. France's GDP grew in the year to the fourth quarter by a healthy 2.8%. But Germany's GDP was only 1.9% higher over the same period (and in the fourth quarter itself, grew by just 0.2%). Euro-area inflation fell to 2.4% in the year to January from 2.6% in December. Unemployment rose by a tenth of a percentage point; Greece was included in the figures for the first time.

See article: No recession in Europe



Car trouble

EM.TV a debt-ridden German TV company, said that it would exercise an option to purchase for $988m a further 25% of a holding company that owns the rights to Formula One motor racing, raising its stake to 75%. The FIA, the sport's governing body, had announced that it would oppose any such deal. It will vote on it shortly.

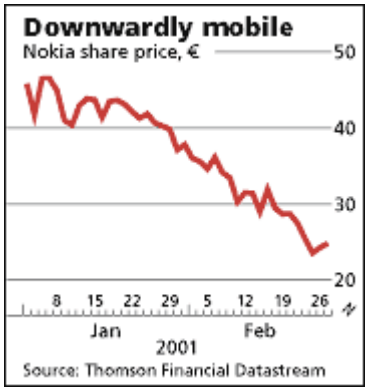
Microsoft's antitrust case returned to the courts. Questioning of the Justice Department's lawyers by the seven judges hearing the appeal suggested that Microsoft could avoid being split in two and possibly might even emerge unscathed when the court delivers its verdict in April or May.

See article: The Microsoft trial, contd

Nokia, the world's leading mobile-phone manufacturer, defended third-generation mobile telephony against charges that it would not be ready for a commercial launch next year and in any case would bankrupt the industry. Nokia's bullish sentiments coincided with a slight upturn in its dwindling share price.

Mediacom Communications bought AT&T's cable division, **AT&T Broadband**, for $2.2 billion to become America's eighth-largest cable company. AT&T sold the division to reduce its debts of around $50 billion.

Vodafone, the world's biggest mobile-phone company, upped its stake in **Japan Telecom** to 25%, buying a further 10% from AT&T for $1.35 billion to trump British Telecom's 20% holding. Japan Telecom owns 54% of J-Phone, a mobile subsidiary. Heavily indebted BT may be forced to raise cash by selling its stake, perhaps to Vodafone.



JDS Uniphase, the world's largest optical-equipment maker, said that it would get rid of 3,000 employees—some 10% of its workforce. Demand has slowed, particularly from heavily indebted telecoms companies.

Gerhard Schröder, Germany's chancellor, displayed a firm grasp of economics. He reminded disgruntled Deutsche Telekom investors that shares "can go up or down". The partly privatised company has suffered a recent decline (like the whole sector) prompting a group of investors to begin legal proceedings. They allege financial mismanagement and want compensation for their losses. The opposition called for Ron Sommer, Deutsche's chairman, to resign.

Internet advertisements are going to be bigger and more obtrusive. The existing **banner ads** have disappointed websites and advertisers alike; revenues are falling and the rate of "click through" is poor. The answer, according to the Internet Advertising Bureau, a trade body, is ads that are harder to ignore. Many top websites have agreed to try it.

Running repairs

DaimlerChrysler, the world's fifth-largest car maker, formally announced a restructuring plan. It predicted a rapid return to profitability for its loss-making Chrysler unit by 2002 and said that 9,500 jobs would go at struggling **Mitsubishi Motors**, in which it has a 34% stake. It had previously announced 26,000 job losses at DaimlerChrysler. Investors were unimpressed; the firm's shares and credit rating declined.

See article: DaimlerChrysler's woes

Dentsu, one of the world's leading advertising agencies, said that it planned an initial public offering by the end of the year. Reports suggested that up to 20% of the company could be sold. Dentsu would probably use the proceeds of up to $2 billion to join the global buying spree by big advertising firms and expand beyond its Japanese stronghold.

Jack Welch, boss of **General Electric**, failed to convince the European Commission that an intensive four-month antitrust investigation into a $40-billion acquisition of Honeywell International was unnecessary. The commission fears that a combined concern could exploit market power in the supply of aircraft parts. "Neutron Jack" postponed his retirement to see the deal through.

See article: GE's merger setback

California sought to bring power transmission back under state control by striking a deal to buy the transmission systems of a near-bankrupt utility, **Southern California Edison**, for a whopping $2.76 billion. A similar deal with **San Diego Gas & Electric** seemed close. **Pacific Gas & Electric** held out for even more cash. The high prices represent a bail-out of sorts.

Pilkington, a British glass company, made a bid to introduce greater transparency to its business with the unveiling of its latest product, self-cleaning glass. This could be good news for the chamois, a diminutive antelope that provides top-quality leather used for polishing low-tech surfaces.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Produced by = ECO PDF TEAM =
Thanks xxmama

The world this week

Mar 1st 2001
From The Economist print edition

Big budget

President George Bush unveiled his $1.9 trillion **budget** for fiscal year 2002 to Congress, with promises to cut taxes and spend more on health and education. He suggested that taxes could be reduced by $1.6 trillion in the next decade, which would help stimulate the economy, and that over half of the $3.4 trillion national debt could be paid off. Democrats complained that the rich would benefit most from the budget.

See article: Gambling man

A review of **uncounted ballot papers** in Miami-Dade, Florida, by the *Miami Herald* suggested that Al Gore, the Democratic candidate for president, would have won only 49 extra votes in November's presidential election. Even with added votes from three other counties, Mr Gore would not have overtaken his Republican rival, Mr Bush.

See article: Another Florida recount

Colin Powell, America's secretary of state, told NATO allies that America would not withdraw unilaterally from peacekeeping in the Balkans. He also said that European concerns would not delay a planned national missile defence programme. And he sought European approval for American plans to modify, not lift, sanctions against Iraq.

Subcomandante Marcos, the leader of the Zapatist National Liberation Army, began a peaceful two-week march across **Mexico** to muster support for proposed laws improving the rights of the country's 10m Indians.

AP

See article: Rebels on tour in Mexico

Peru's Congress charged **Alberto Fujimori**, a disgraced former president, with abandoning his office and dereliction of duty. It also asked Japan, which is sheltering Mr Fujimori, to send him back to face prosecution.

See article: Lourdes Flores, Peru's new hope

Avenging Dayaks

Civil unrest in **Indonesia** moved to central Kalimantan, in Borneo, where indigenous Dayaks killed more than 300 people who had been resettled from more crowded parts of the country.

AP

See article: Massacres in Borneo

Masakuni Murakami, a former labour minister in **Japan**, was arrested on bribery charges in a further blow to the tottering government of Yoshiro Mori.

In his budget, Yashwant Sinha, **India**'s finance minister, promised privatisation and tax and interest-rate cuts to revive growth. It was a "new deal", he said, copying Franklin Roosevelt's phrase of the 1930s.

See article: India's budget

Fiji's appeals court declared the country's interim government to be illegal, and told its president to step down within two weeks.

On a visit to **Vietnam**, President Vladmir Putin discussed the renewal of Russia's lease on a naval base at Cam Ranh Bay, which ends in 2004. The Vietnamese want more cash. China and America have shown an interest in the base.

Balkan steps

The former head of **Serbia**'s secret police, Rade Markovic, who has been accused of arranging the assassination of people opposed to Serbia's former strongman, Slobodan Milosevic, was arrested. Goran Svilanovic, the Yugoslav foreign minister, said the investigation could lead to "further steps", a hint that Mr Milosevic himself might be charged.

See article: Serbia starts arresting its villains

NATO troubleshooters went to **Macedonia** after skirmishes broke out between the country's security forces and ethnic Albanian fighters in villages near the border with **Kosovo**. NATO also cautiously agreed to give **Serbia** a freer hand in dealing with ethnic-Albanian fighters in the Presevo valley, a strip of Serbia east of Kosovo.

See article: Macedonia's worries over Kosovo

Foot-and-mouth disease, a highly infectious virus that affects cloven-hoofed animals, appeared in Britain. The government banned the export of animal products. The last big outbreak of the disease, in 1967, is reckoned to have cost $2.3 billion at today's prices.

See article: Foot-and-mouth disease spreads

Spain's ruling People's Party named the forceful interior minister, Jaime Mayor Oreja, a Basque, to lead its challenge in the **Basque** regional elections in May.

The Communist Party regained power in **Moldova**, a former Soviet republic, after easy victory in the country's general election.

The EU came close to an agreement with the **football** authorities to meet its objection to transfer fees. The system will change but fees will not disappear.

See article: A tricky transfer deal for football

Show of unity

After a stormy meeting that split **Israel**'s Labour Party, its members agreed by about two to one to join a national-unity government led by the Likud's Ariel Sharon.

See article: Israel, the law and the intifada

For the second year in succession, **Mozambique** was threatened by disastrous flooding in the Zambezi valley. The government appealed for aid worth $30m to help displaced people who may number as many as 400,000.

In the first withdrawal of foreign armies from **Congo** since Joseph Kabila became president, Rwanda and Uganda withdrew some of their troops from the east of the country.

Hutu rebels in **Burundi** attacked the capital, Bujumbura, seizing parts of the suburbs for four days, before being repulsed by the army. A regional summit in Tanzania, chaired by Nelson Mandela, failed to revive Burundi's peace effort.

Anthony Gubbay, **Zimbabwe**'s chief justice, resisted political pressure to make him resign. He said he

would not, after all, take early retirement in June.

In a refugee camp in southern Algeria, Polisario, the **Western Saharan** independence movement, held a military parade to mark 25 years of failed international efforts to solve its dispute with Morocco.

Reuters

In **Sudan**, the UN's children's agency brought out 2,500 child soldiers from fighting areas. They had earlier been demobilised from the rebel Sudan People's Liberation Army.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Gambling man

Mar 1st 2001
From The Economist print edition

Already George Bush is bold enough to take risks. Some may prove too big

AS BEGINNINGS go, it has not been a bad one. Indeed, given the circumstances, it might be described as excellent. Barely a dozen weeks after winning the election with the weakest mandate imaginable, George Bush is beginning to look like a real president.

Reuters

Mr Bush has already shunted most of his appointees through Congress's usually sluggish approval process. Important foreign allies have already been met, conservative constituencies have been sated and moderate opponents courted. Those twin demons of the Bush family, Saddam Hussein and Bill Clinton, are both, for different reasons, licking their wounds. Even the news from Florida is good: this week, independent counts confirmed that Mr Bush would have won even if Mr Gore had got the manual recounts he wanted.

Most impressive of all, this looks like a man who knows exactly where he wants to go. Week after week the new president has rolled out his plans, focusing on the same five issues that dominated his campaign: education, a huge tax cut, health care, a new missile-defence system, Social Security reform. You can quibble on the details—was it, for instance, really necessary to appoint John Ashcroft as attorney-general? But, by and large, the ground has been prepared.

This week Mr Bush delivered what was, in effect, his first state-of-the-union address and, the next day, sent his first budget to Congress. His address gave Democrats in Congress a clear warning that Mr Bush will be quite effective at using his office to appeal over their heads to the American people. He may lack the rhetorical whimsy that allowed his predecessor to get out of tight spots; but he does not lack self-confidence or charm.

The budget is another matter. To begin with, budgets are about hard numbers, not mushy feelings. No matter how many friendly dinners you have with Ted Kennedy or funny nicknames you come up with for the White House press corps, a budget shows where your priorities lie. Already, there are signs of rebellion on both sides of the aisle. Democrats want even more spending on sectors such as education; Republicans fret that, according to polls, only one in five Americans thinks a tax cut should be a priority.

Indeed, Mr Bush's tax cut—worth somewhere above $2 trillion over the next ten years—is a problem. Put simply, it just looks too big. This, it should be stressed, is not because there is anything wrong with tax cuts. Mr Bush is right to say that fiscal surpluses are the people's money, not the government's. Nor is there a good reason in macroeconomic policy to oppose a cut. Back when the New Economy (remember that?) was powering ahead, a huge tax cut could have been dangerously inflationary. Now that the economy seems to have stalled, that danger has lessened.

The main reason for scepticism now, quite simply, is that the money may not be there to give back. The current forecasts show a surplus of some $5.6 trillion over the next ten years. But fiddle with the assumptions about economic growth, savings rates and federal spending, and that figure can shrink rapidly. The number has grown dramatically in the past year, thanks to such guesstimates; it could come down again just as quickly. There have already been some fairly drastic downward revisions of surpluses in some individual states. Mr Bush also has other (fairly wise) things to do with the money, including paying down another $2 trillion of the national debt and increasing spending on education, health care, the armed forces and Social Security reform.

And all this, remember, is before Congress has got its pork-stained fingers near any cash. Mr Bush hopes that his tax cuts will be instruments of fiscal discipline: he wants to restrain government spending, which has recently been rising by 6% a year, to increases of just 4%. History, however, shows that Congress has few reservations about spending money that it does not have.

There is also one final, political problem about Mr Bush's tax cut: it goes largely to the rich. In one sense this is not his fault: the rich pay virtually all the taxes at the moment, so they are bound to get most of the benefit. But, even with this caveat, Mr Bush could do a little more to target the benefits to poorer Americans. For instance, rather than abolishing the inheritance tax (which affects only the rich), it would have been better to make bigger reductions in the lower rates of tax.

Throw the dice

The two presidents before him both trimmed their sails in favour of fiscal prudence. Mr Bush's father actually raised taxes. Having promised a middle-class tax cut, Bill Clinton decided to reduce the deficit instead. Mr Bush's budget is a return to the "damn-the-torpedoes" style of Mr Reagan. Indeed, to propel the naval metaphor back a few more centuries, his economic role-model seems to be Hernan Cortes, the conquistador who burnt his ships so that his men would know that there was no easy route back to Spain.

As a gamble, it might work. Mr Bush may be able to protect his big tax cut with tough spending curbs, and the economy may stay upright long enough to produce the surpluses he needs. But if he loses the spending fight and the economy tanks, voters in 2002 may react furiously to the discovery that "their" dollars have already been given away to the rich. The bet may come off; but Mr Bush is definitely chancing his luck.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Don’t mention the R-word

Mar 1st 2001
From The Economist print edition

Are economic forecasters wishful thinkers or wimps?

IS THE flurry of gloomy economic news in America giving you nightmares? Fear not. According to a recent survey, only 5% of economic forecasters predict that the American economy is heading into recession. But before you drift back into a peaceful slumber, remember that the dismal scientists have a dismal record in predicting recessions. Not only are their forecasting tools blunt, but many also seem to have an inbuilt bias against uttering the dreaded R-word.

Consider forecasters’ record during America’s past two recessions. In late 1981, when we now know that the economy was already in recession, the average forecast for GDP growth in 1982 was over 2%. In the event, output *fell* by 2%. In August 1990, the very month that America dipped into its next recession, the consensus forecast was for 2% growth in 1991; output actually declined by 0.5%. By chance, the average forecast for growth this year is again close to 2%. But, of course, this time is different: the forecasters couldn’t possibly blunder again. Could they?

To be fair, economic forecasting is even harder than weather forecasting. At least weathermen know whether it is hot or freezing right now. Economists, in contrast, have to forecast the immediate past, which is constantly being revised. However, there are also much less excusable factors at work, such as the “tell ’em what they need to hear” syndrome or the wimpish tendency to run with the gang. Predicting a recession is never popular, especially if you work for an investment bank. Economists who do not want to jeopardise their career may prefer to stay close to the consensus forecast. Better to run the risk of being wrong in good company, they reckon, than be right and an outcast.

There have long been suspicions about the objectivity of research done by investment-bank analysts, who, even as the ceiling falls in, advise their clients to “buy”, “hold” or “accumulate” (apparently different from “buy” or “hold”) rather than sell. Coincidentally, these banks earn fat fees for flotations or merger deals from the companies they analyse. Investment banks, which have made billions out of the boom, also have a vested interest in remaining bullish about the economy at large. Most Wall Street firms are still officially forecasting no recession in America. But an alarming number of their economists have privately admitted to *The Economist* that they believe that the risk of recession is higher than their published forecasts say. They are not alone in their dishonesty. International organisations such as the IMF are no doubt just as inhibited about forecasting a recession in the country that is their biggest shareholder.

Deny, deny

So as not to alarm their clients, economists are also swiftly redefining a “soft landing”. A few months ago this was widely viewed as growth of around 3%. Today, many economists, reluctant to admit they were wrong, are counting anything short of outright contraction as a soft landing. Shame on them: a slowdown in growth from a rate of 5% early last year to, say, zero this year would certainly feel like a hard landing.

Economists can always quibble about what “recession” means. The popular definition—two consecutive quarters of decline—is too crude. It might make more sense to define a recession as a period when the unemployment rate rises by at least one percentage point—that is, when GDP growth falls significantly below its potential rate. Alternatively, there is a less technical solution. When your neighbour loses his job, it’s a slowdown. When you lose your job, it’s a recession. When an economist gets sacked, that’s a depression. Economists afraid to say what they think deserve to be a bit depressed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

They're burning animals again

Mar 1st 2001
From The Economist print edition

In the face of foot-and-mouth disease and BSE, Europeans cannot simply reject modern intensive agriculture and turn organic

Get article background

UNP

IT HAS been a good time to be a vegetable—or, at least, a vegetarian. All across Western Europe farm animals are being slaughtered and burned in huge funeral pyres, in a desperate effort to halt the spread of foot-and-mouth disease, which has broken out in Britain, and to eliminate it as quickly as possible. All this when the smoke had barely cleared from efforts to rid cattle herds of bovine spongiform encephalopathy (BSE), otherwise known as mad-cow disease, which had also spread from Britain to continental Europe. This time, it is not just cows that are going up in flames, but also sheep, pigs, deer and any other cloven-hoofed livestock that have recently been exported from Britain.

The sense of crisis is at its greatest on this side of the channel, where restrictions have been increasing all week on the movement not only of animals or meat that might carry the disease but also people. Sporting events are being cancelled, footpaths closed, protest marches postponed, and the government's thoughts of an April general election are fading by the day (see article). But this disease is so virulent and, although safe for humans, so debilitating to the productivity and value of farm animals that continental European governments too are talking of "catastrophe" and of drastic measures. Meanwhile those farmers not too depressed by the sight of their livestock and livelihoods burning away have been renewing their already vociferous calls for compensation, for subsidies—for anything but the cuts in support from Europe's common agricultural policy (CAP) that most people think are inevitable as Europe enlarges to the east.

Intensive questions

It is not a pretty, or terribly edifying sight, whether for farmers, carnivorous consumers, politicians or those who care about animals. But what is to be done about it? Should we (ie, European consumers, and those elsewhere in the world who share the same worries) all start eating food only from organic farms, which produce locally, slaughter locally and avoid all artificial fertilisers, pesticides and antibiotics?

Those who prefer such organic food should do so, by all means. They would thus limit two possible sources of today's ills: the widespread movement of livestock, which has enabled the foot-and-mouth outbreak to affect such a large area so quickly; and the use of "unnatural" feeds, which lay behind the spread of BSE. But this would hardly be a complete protection: Britain's last foot-and-mouth epidemic was in the more organic days of 1967, while America last suffered in 1929. And those who chose the exclusively organic route would pay several, high prices.

One is literal: the price of organically produced food is higher than that from more intensive farms, and is likely to remain so. Yields are lower, costs are greater. Another is a lessening of variety. Although people's desire for abundant, cheap food is the big reason for intensive modern farming, another is the taste for variety that has come from affluence and from fast, cheaper transport. Fruits and vegetables have lost their seasons and have been supplemented by exotic species, and once-scarce foods such as salmon and venison have become more common. So food moves about all over the place, alive or dead, and is kept fresh or safe by many means, some artificial.

That word "artificial" is important, because it is slippery. The use of chemicals and drugs in farming is viewed with much suspicion—almost as much, in some quarters, as the evolving experiments in genetic modification. Some of this use arises because of intensive farming methods: keeping animals shut up in

pens or battery sheds makes them more prone to disease, which leads farmers to use antibiotics. But not all: many drugs and chemicals are used to make food—good, wholesome food—safer. In some countries, indeed, vaccination is the method used to control foot-and-mouth disease. Its only disadvantage is that it makes the disease harder to detect, because vaccinated animals produce similar test results to diseased ones.

Living with modernity

So, although to become organic will be a legitimate choice for some, it is far from cost-free. Even Germany's Green farms minister, Renate Künast, admits that organic farming is unlikely to account for more than 20% of the German market within a decade, and even that may be optimistic. Calls—partly from Ms Künast herself—to shift European farm subsidies to support organic farming are not the solution (see article). By boosting CAP spending at just the time when it is coming under pressure from East European applicants, such support would be likely to become part of the problem.

Like it or not, the preferences of modern consumers for cheap, varied, all-year-round food mean that farming is going to remain intensive. The experience of the countries where agri-business is at its most industrial, America and Australia, suggest, however, that this need not make it unsafe. In those countries, indeed, the incidence of disease is lower than in Europe, perhaps because the very scale of operations makes it more necessary for farmers to maintain tight veterinary controls, and to innovate with new drugs and pesticides.

Part of Europe's trouble may arise from wanting the best of both worlds. Local food supplies, even from fairly small farms, supported and guided by subsidies; but abundant, varied food, distributed through competitive supermarket chains who want to drive down their costs as far as they can.

To a degree, the foot-and-mouth epidemic is *sui generis*, a natural disaster that simply needs to be dealt with on its own terms. But if there is a wider lesson, it is not that Europe should close its doors, both on the world and on modern times. It is that the best course is to buy food from those who are really best at producing it, who are most technologically advanced at keeping it safe, and who, quite simply, produce the best food. Food cannot be cheap, local, green, safe and varied, all at the same time.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Global capital rules, okay?

Mar 1st 2001
From The Economist print edition

It is time to modernise the regulation of cross-border finance

GLOBALISATION is supposed to have made politicians impotent, and nothing is more global, you might think, than capital. Yet the reality falls short of the hype. Capital is not the untamed worldwide ocean of money it is often portrayed as. Most countries have rules that restrict where it can go—rules that, for all the ingenious attempts to find ways around them, often have a big effect.

Some oddball regimes, such as Malaysia's, claim that their economies prosper best behind a wall of capital controls. Most governments, though, have come to think that barriers to capital are against the national interests. Reforming financial regulation to make it more accommodating to cross-border flows is high on the political agenda. In Europe, a committee of "wise men" chaired by Baron Alexandre Lamfalussy, a Belgian banker, has recently published ambitious proposals to bring closer the long-promised single capital market within the European Union (see article). In America, Phil Gramm, chairman of the Senate Banking Committee and the Bush administration's leading adviser on the financial world, has long worried that Uncle Sam's antiquated regulatory structure may threaten the "global supremacy" of its equity markets. Now may be his best chance to do something about it.

Rules for regulators

As the regulators modernise, there are some simple lessons to draw on. First, though an unregulated market may sometimes be more efficient than a badly regulated one, a well-regulated one is superior to both. No doubt, you may say—but what is good regulation? At a minimum, which may be all you need, nothing more than enforcing contracts and customary rules of conduct. This is especially likely to suffice in markets that consist of professionals dealing with professionals, be they investors with capital or business people raising it. A good example was the eurodollar market, which thrived without government regulation after America drove it offshore in the 1960s by imposing an interest-equalisation tax.

Lesson two: markets involving non-professional investors need to be regulated differently. Amateurs may lack information or basic financial skills, making them vulnerable to hucksters. Regulation is needed to protect them—and self-regulation, which would inevitably be run by professionals, is not the answer. How much protection is appropriate can be debated, though any regime not based on caveat emptor is likely to lead to problems. It is striking that America has much higher capital-market participation by individual investors than Europe, and its regulations lay great emphasis on striving to create a level playing field between amateurs and professionals. In particular, the disclosure of information to investors of all sorts is far greater in America than elsewhere.

The third lesson is perhaps the most pertinent to today's reformers: competition among regulators, at least across borders, is a good thing. Fears that competition of this sort starts a race to the bottom—that is, to lax regulation—are misplaced. Well-regulated markets are more efficient; that means they grow. So competition among regulators favours those who do a good job. A monopoly regulator can err on the side of heavy-handedness or neglect and expect to get away with it. A single capital-market regulator for the world, even supposing it were feasible, would therefore not be desirable.

The virtues of regulatory competition were clearly demonstrated by the European Union's "single passport" policy—an approach to securities markets based on mutual recognition and home-country supervision. The idea was that any firm or exchange with approval in one EU country could operate throughout the union, subject mainly to the rules of its home country. This approach has been no more than half-heartedly implemented. Even so, it has generated fierce competition between regulatory regimes. Some national stock exchanges have merged as a result, and innovative new trading systems

have entered the business. The upshot has been a great increase in the efficiency of Europe's securities markets.

As the EU modernises its regulations, it should take care not to crush this healthy process under too much homogeneity, still less under the weight of one pan-European regulator. It would be better to extend the existing model across the Atlantic. Regulators have been reluctant to allow European exchanges to ply their trade in America, by putting their trading screens there. The official reason is the desire to protect non-professional American investors. The real reason is the desire to protect America's domestic exchanges. If Messrs Gramm and Lamfalussy really want to advance the cause of well-regulated global capital markets, allowing American and European exchanges to compete for each other's customers while continuing to be supervised by their own competing regulators would be a capital idea. May the best rules win.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Schrempp's last stand

Mar 1st 2001
From The Economist print edition

It looks increasingly as though Daimler-Benz picked the worst possible moment to buy Chrysler

Get article background

Reuters

WAS it always bound to end in tears? Only three years ago it seemed to be a marriage made in heaven. On one side, Mercedes-Benz, the epitome of European automotive aristocracy, brimming with confidence, cash and technology. On the other, Chrysler, for years the lame duck of Detroit, but, thanks to an extraordinary product-led revival in the 1990s, reinvented as one of the world's most dynamic car companies. Mercedes's parent, Daimler-Benz, would get global reach and scale. Chrysler would get investment and access to some very expensive new technologies.

This week DaimlerChrysler's boss, the once-ebullient Jürgen Schrempp, announced a "Turnaround Plan" that will cost the best part of $4 billion in plant closures and sackings. At the same time, Mr Schrempp had to admit to the need for similarly drastic surgery at Mitsubishi Motors, the ailing Japanese firm in which DaimlerChrysler took a controlling 34% stake last September.

In retrospect, as always, it is depressingly easy to chart when and how things went wrong. Despite its $38 billion price, Chrysler was more fragile than it seemed. It had been smart enough to get early into two lucrative niches—sport-utility vehicles and minivans—with well-designed models, and an eight-year boom in the American car market did the rest. But soon after the merger, many of the executives who had helped Chrysler punch above its weight headed for the exit, clutching vested options. Daimler's management was slow to integrate the businesses and push for economies such as platform- and component-sharing. This timidity was partly out of deference to American sensibilities, but also because Mercedes's managers were snobbishly fearful that their premium brand might be contaminated by too close an association with Chrysler. Meanwhile, Chrysler suffered as costs soared and new models failed to sell in the hoped-for numbers because of over-optimistic pricing, quality problems, fierce competition and the gathering market downturn.

With a share price that is little more than half the level it reached during the immediate post-merger euphoria, and harried by lawsuits from angry American investors, Mr Schrempp has pinned his future on hitting some fairly ambitious numbers in the next two to three years. At the same time, he has concentrated decision-making power in the hands of a small committee that he will chair. Getting shot of Chrysler (in the way that BMW washed its hands of Rover) is not an option. He has to make this work or he will be out. Mr Schrempp knows that even the patience of Deutsche Bank, a famously supportive shareholder, is wearing thin.

No excuse

Is any of this surprising? Not really. Big cross-border mergers are difficult and can easily be blown off course by events; German and American business cultures are unalike; and the upmarket bit of the car business, which Mercedes knows about, plays by different rules to the volume end that Chrysler inhabits. The interesting question is whether, given all the risks, Mr Schrempp was right, as he claims, to do what he did. Or did he fall for what is beginning to look like a myth—namely, that in car making only the biggest survive?

The news in today's car industry is not so much the triumph of the heavy battalions—look at General Motors, too—but the way premium brands are being stretched into ever-higher-volume sectors, just as traditional volume brands, such as Ford, Opel and Chevrolet, are finding life tough. A sign of the times

was GM's decision to jettison Oldsmobile, a brand once synonymous with middle-class solidity. In Europe, ironically, nobody is more active than Mercedes in blurring the distinction between the volume and premium ends of the market, building smaller cars in greater numbers and getting costs down to unheard-of levels for the marque. Ford's response has been to put together a portfolio of complementary and sometimes overlapping premium brands, including a revitalised Jaguar, Volvo, Aston Martin and Land Rover. Ford is doing well with its new Mondeo—a car as good as the small Mercedes, BMWs, Audis and (coming soon) Jaguars flooding the market—but the badge means the car sells for much less than its premium-brand rivals command.

Mr Schrempp's gamble may still come good, but the nagging possibility is that he bought a volume car maker at precisely the wrong moment. What's worse, as the architect of Mercedes's brand-extension strategy, he should have been in a better position than anybody else to know.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The elephant moved

Mar 1st 2001
From The Economist print edition

Yashwant Sinha's welcome new budget suggests that economic reform in India is alive and well

Reuters

NOT a great deal was expected of India's budget this year. Political pressures on the ruling coalition, together with memories of earlier disappointments, had led to a general downgrading of expectations, never that high to begin with. Gloom had settled over the current state of the economy, which has grown more slowly in recent months, and over the prospects for further economic reform. Every commentator, analyst and semi-conscious Indian politician agreed, in the abstract, that further reforms were necessary. That has been the position for years. But almost none of them thought that anything much would happen this week.

Against such a background, the new budget for 2001-02 came as a pleasant surprise. Before getting carried away, please understand that, in itself, it by no means constitutes the longed-for "second wave" of liberalisation. The first wave, implemented in a hurry during the early 1990s, under the direction of the great reforming finance minister, Manmohan Singh, dismantled India's insanely complicated regime of domestic industrial controls and tentatively introduced the economy to the outside world. Much was left undone, as Mr Singh continues to insist. Privatisation—or "disinvestment", as Indians still prefer to call it—has been agonisingly slow. Trade and cross-border capital are far from free. Petty bureaucracy continues to plague business. The public finances are a mess, thanks largely to colossal, economically indefensible and socially worthless subsidy programmes. State and central bureaucracies remain grossly distended. And labour "markets" are barely visible beneath a substantially unreformed rats' nest of rules and restrictive practices. To be sure, there is plenty for a second wave to be getting on with.

This budget may not be that second wave—but it is a sign that India may, despite earlier indications to the contrary, get there in the end. Yashwant Sinha, finance minister since 1998, gave a spirited and evidently sincere account of the case for further major reform; and he proposed a long list of changes, none of them dramatic in themselves, which nonetheless point in the right direction. In the current political context, it was quite encouraging.

Unsurprisingly, India's financial markets liked best Mr Sinha's avowedly "business friendly" measures: moderate cuts in corporate and personal income taxes; a reversal of last year's strange doubling of the tax on dividends; an easing (too timid, but never mind) of the rules controlling the ability of Indian firms to invest and raise capital abroad; tax breaks for research and development (especially popular with India's successful information-technology firms); a simpler and more uniform excise tax; and so forth (see article). But a better guide to the prospects for the second wave was what Mr Sinha said about privatisation, jobs in the public sector and labour laws. Here is where the real challenge lies.

Calmly does it

Again, it is important to understand that in these areas, especially, Mr Sinha's budget is, as yet, all talk and no action. But the talk was sweet to reformers' ears. It was genuinely surprising that the minister dared say he intends to reform the Contract Labour Act and the Industrial Disputes Act to make it possible for troubled firms to sack workers. (That's right: at the moment, it often isn't.) Obviously necessary though this change may be, getting it done is a mighty political challenge that Mr Sinha could easily have chosen to duck. In addition, there was forthright talk about increasing the pace of privatisation, reforming the state electricity boards and shrinking the civil service. All that was enough to send opposition members of parliament into a fit—an excellent sign.

All right, it may never happen. Often enough, Indian ministers have made good speeches and, in the teeth of political opposition, been forced to back down. In all likelihood, that will happen again this time, but save such thoughts for another week. India had a good budget.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Letters

Mar 1st 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Energy gap

SIR—Your survey on energy (February 10th) reaches some dubiously optimistic conclusions. You predict a continuing abundance of oil and gas at affordable prices. In doing so, you downplay the potentially catastrophic risks of ever-increasing global dependence on the Gulf. Such dependence is unavoidable because the area has by far the biggest oil and gas reserves and lowest production costs. You also ignore the fact that petroleum production costs are continuing to increase, and will inevitably drive prices up, or drive out higher-cost producers (boosting low-cost Gulf suppliers). Therefore, abundant and affordable supplies of oil and gas are by no means a certainty.

JOHN BRENNER
Wokingham, Berkshire

SIR—You are so intent on promoting competition and the market that you fail to point out that competition can only work with a distribution grid that is a regulated monopoly charging competing producers a fair rate for distribution. Worse, the grid managers would have to be responsible for assuring a dependable supply, perhaps allowing some customers to purchase directly from them. And worse still, the problem of regulating that monopoly's charges in a world of changing supply would baffle accountants. We are currently seeing the failure of access to competitors in many places where the company that runs the grid is also an energy producer.

And utilities have sold the notion of "stranded costs" plus the right of "securitisation" so that they can capitalise an expected subsidy and sell the right, making it impossible to adjust if it were too generous, and often putting some of the burden on new suppliers. Strangely, school systems have not made the same argument when school choice (vouchers, charter schools) makes them lose students and the per-head payment that went with them.

JAMES MORGAN
University of Michigan
Ann Arbor, Michigan

SIR—Your frequent calls for a carbon tax demand a qualification. Any such tax should be earmarked specifically for carbon-reducing initiatives. Unhappily, the experienced observer of governments will presume the revenue simply to enter the general coffers and sink out of sight, never to be seen again.

FRANK GUE
Burlington, Canada

SIR—You smugly dismiss the contribution that Alaska can make to the world's energy balance ("Alaska or bust", February 10th). Using the strictest environmental controls in the world, the temporary disturbance of 2,000 acres of Alaska could yield as much as 16 billion barrels of oil and untold amounts of natural gas. Caribou would flourish, as they do next door in Prudhoe Bay, North America's largest oil field. Life would go on, just as in the North Sea—a pristine area prior to the discovery and development of Alaska-sized oil and gas deposits.

President George Bush believes it prudent for Americans to produce more of our own energy and lessen our dependence on other sources. So do most Americans. We are, after all, well known for harbouring deep-seated yearnings for independence.

FRANK MURKOWSKI

Chairman, Senate Energy and Natural Resources Committee
Washington, DC

California, here I come

SIR—Whatever quality-of-life problems may exist in California ("California on the couch", February 10th), they pale in significance compared with those faced by the rest of America. As one who left Michigan in 1976 for a better climate of every sort—economic, social, cultural, political, and yes, meteorological—I can attest that life in California, like life itself, appears unbearable only until one considers the alternative.

RILEY VANDYKE
San Francisco

Stripped robots

SIR—The picture with your article about robots ("Your flexible friend", February 24th) showed the wrong "Terminator". The stripped-down look of the T-700 comes from having emerged from a burning petrol tanker, which cooked off those unwanted extra pounds and Arnold Schwarzenegger's expressive face. The T-1000 that came in the later film was returned to its base metal form when dumped into a vat of molten steel. The T-700 was less adaptable than its cousin, but more robust in the end. And did I mention better paid?

MICHAEL COLLIGAN
Geneva

A cheer for Bush

SIR—You misquote the soldiers who greeted George Bush at Fort Stewart ("New arms for a new world", February 17th). The cheer the soldiers used was "hooah" not "hoorah". The use of "hoorah" would be considered a major gaffe, akin to saluting with the wrong hand. Our new commander-in-chief got it exactly right when he responded to the troops' cheer with a crisply delivered "hooah" of his own.

This contrasts sharply with Bill Clinton who, in his first appearance in front of the troops, delivered an awkwardly limp salute. This, coupled with his push to allow gays in the military, contributed to the feeling of uneasiness Mr Clinton fostered with some members of the military during his initial days in office. We now have a president who begins his term by proposing to raise military pay and speaking the language of the military. You have criticised Mr Bush for occasionally twisting the English language. In this case, you would do well to take a lesson from him.

MICHAEL MANN
Washington, DC

Bar-room philosophy

SIR—I wholeheartedly agree with Patrick Taylor about Budweiser (Letters, February 17th). In Norway it is usually referred to as "beer used twice". I believe this is more a reflection upon its taste rather than the fizz factor. Perhaps it is also related to the old adage: "never eat yellow snow"?

ESPEN RONNEBERG
Morganville, New Jersey

Patent medicine

SIR—You are right to highlight the debate about the terms on which scientific knowledge can be owned ("Science and profit", February 17th), but wrong to caricature Oxfam's campaign as "impugning the profit motive" and "denouncing western capitalism". Oxfam is not against profits or patents. Intellectual-property protection is needed for innovation but this must be balanced against the needs of millions of poor people for affordable medicines. This calls for a more flexible approach to patent rights in different parts of the world.

The world faces a terrible health crisis, felt most acutely in developing countries. Every day 30,000 people, most of them poor, are dying from treatable diseases. Yet WTO rules dictate a one-size-fits-all, 20-year patent period for drugs in all member states, irrespective of national financial circumstances or public-health needs. Drug companies are already using legal action in South Africa and threats of trade sanctions against Brazil to prevent poor countries from using even the limited public-health safeguards these WTO rules contain.

Ensuring greater access to vital medicines in poor countries requires action on many levels. A more flexible approach to patent protection is a key piece of the jigsaw. Contrary to your claim, losses to industry will be minimal as almost all profits are generated in rich northern markets. Moreover, these losses pale against the potential losses from the damaged reputation that drug companies face as a result of their reckless enforcement of patent claims.

The risk of "grey" re-importing needs to be addressed, but by effective customs enforcement not unnecessary patent extension. And drug manufacturers should not bear the whole burden of improving access to drugs in developing countries. That is why we welcome the industries' participation in public-private initiatives aimed at improving access. But apparently (unlike *The Economist*) we also believe that patents unduly restrict market competition leading to lower prices.

DAVID BRYER
Director, Oxfam
Oxford

SIR—You propose that taxpayers in rich countries, not drug companies, should pay for the drugs that poor countries need to fight the AIDS epidemic. They already do. The National Institute of Health spends billions of dollars a year doing the most risky initial research to develop blockbuster drugs that companies patent and sell for windfall profits. America's drug industry also enjoys one of the lowest effective tax rates of any industry because of the extraordinary concessions made in order to persuade companies to develop drugs that might not be profitable—through the orphan drug tax credit, for example.

Drug companies have bitterly resisted calls to make AIDS drugs affordable in poor countries. Perhaps it is "naive, wrong and in the long run counter-productive" to condemn drug companies for protecting their profits. It is irresponsible, however, to disregard the large contribution American taxpayers make to developing the drugs from which those companies profit. The cost of supplying African countries with AIDS drugs could not cost more than the billions Americans pay every year to subsidise the drug industry. We should start there.

MICHAEL SURRUSCO
Public Citizen Congress Watch
Washington, DC

Trade blocked

SIR—Your report on the proliferation of African trading blocks was long overdue but the problem is more general and hence more alarming than you say ("Afrabet soup", February 10th). The outbreak of such bilateral and regional preferential-trade arrangements has now extended beyond the main culprit, the EU, to America, which succumbed in the 1980s mainly through CUFTA and then NAFTA, and, more distressingly, to Asia, which had been the last stronghold of multilateralism until recent moves to bilaterals by Japan and Singapore.

Several years ago, when bilaterals were many but not yet an epidemic, I called attention to the systemic problem that we then faced. I called it the "spaghetti bowl" problem—a widely used phrase now—to capture the chaotic nature of multiplying rules of origin and the maze of tariff and non-tariff barriers that now apply almost everywhere to specific commodities, depending on origin. Today there are over 400 such bilaterals, the number is ever growing and the spaghetti bowl is overflowing. We have managed, in the name of free trade, to reproduce the preferential chaos in the trading system that protectionism produced in the 1930s. How ironic.

JAGDISH BHAGWATI
Council on Foreign Relations
New York

Plane opinions

SIR—You give an unbalanced view of the need for night flights at Heathrow ("Jumbo noise", February 17th). First, you underplay their importance to the British economy and our international trading prospects. That nearly 30% of British Airways' intercontinental business at Heathrow is bound up with early morning arrivals is one indicator of this. The competition is intense for this business from rival European hubs and regions seeking to wrest leadership from Britain.

Second, night restrictions at Heathrow are already among the tightest in the world. They limit the number of flights and the noise that aircraft may make. Third, much can be done to reduce the impact of night noise short of a total curfew. The government recently changed long-standing practice regulating the direction from which the 15 or so early-morning arrivals, about half of which are BA services, would land. More would land from the west, where nine-times fewer people live under arrivals paths to the airport.

We are very conscious of the noise problem. We work with local communities to reduce noise impact by investing heavily in quieter and more modern aircraft and by ensuring we do not add to the nuisance by coming in well ahead of schedule. We are also working with air-traffic control and the government to adapt descent paths to reduce noise.

ANDREW SENTANCE
Chief economist, British Airways
London

SIR—Researchers from the Civil Aviation Authority (CAA) and the universities of Loughborough, Southampton and Manchester Metropolitan carried out the studies you refer to, not the Department of Transport as you imply. You also make several factual errors. The 1992 study did not seek "to show that aircraft noise causes little or no disturbance". It sought to investigate the relationship between noise level and sleep disturbance. The study found little or no disturbance from aircraft at less than 80 decibels, but at higher levels the data showed the average risk of awakening per flyover to be about one in 75. This was never quoted as being "insignificant". The study showed that the average person typically wakes about 18 times a night—few of these awakenings are remembered in the morning.

Actimetry—the use of wristwatch-like equipment to monitor sleep disturbance—is not the "clumsy methodology" of your article. It is a widely adopted technique in this sort of technical and physiological research. The chart accompanying the article is out of line with the government's published figures on the population affected by aircraft noise; these have shown a generally downward trend at Heathrow, Gatwick and Stansted airports.

PETER BROOKER
Planning and corporate director CAA
London

Antitrust economics

SIR—You do not succeed in demonstrating that trust depends on experience and incentives alone, a conclusion that might have been desirable for many economists (Economics focus, February 17th). The papers that you review do not allow the conclusion that "together, the studies argue that trust is shaped by experience not native personal traits." In so far as the studies were correctly summarised, I agree they indicate that experience may shape trust. But this is not equivalent to indicating that traits may not shape trust. In the article, what might correspond to traits were dealt with in only one case: "first movers, who declared before the game that they trusted strangers, sent $2.21 more across." Thus, if anything, the data in the article indicate that traits may shape trust.

PER HEDBERG
Stockholm

Unfairly bracketed

SIR—When you (clumsily and inelegantly) use parentheses to refer to Charles Schumer as "the (senior) senator from New York", what are you trying to say ("The trouble with John", January 20th)? That Mr Schumer is "one of two senators from New York", "the (other) senator from New York", "the senator from New York (who isn't that woman who just became a senator who is married to a former president)", or simply, "the senator from New York (you've probably never heard of before)"? I am sure he would be thrilled by any of these.

STEVE STUPP
Sofia

Cynically apathetic

SIR—Bagehot (February 24th) defends apathy and cynicism. If I believed that he would practice what he preaches, I would vote for him. Assuming, of course, that I could be bothered.

PETER MILLER
Hove, East Sussex

Price of safety

SIR—You state "estimates say that making new buildings earthquake-resistant adds 10-25% to the cost" ("Gujarat's catastrophe", February 3rd). This can only be the case where the design is very unfavourable. If good standards are enforced effectively, designers would soon learn to produce favourable concepts. Cost-comparison studies have been carried out by a number of authors on a wide range of structures.

M. Ipek's study of 1968 indicated that for most multi-storey, reinforced-concrete structures the cost of the load-bearing structural components increased by up to 14% in order to provide earthquake resistance in severe seismic locations. A similar study by R.V. Whitman and colleagues in 1974 indicated that the increase in the structural cost, related to the overall building cost, was between 2% and 8% for multi-storey buildings with an additional 1% for non-structural items.

In 1977, the United States Department of Housing and Urban Development funded an analysis which determined the extra costs of earthquake and hurricane resistance for a variety of single-family dwellings. The incremental costs ranged between 0.24% and 2.2%. We cannot afford unsafe buildings, especially in poorer countries. The most-expensive buildings are those that fail.

TONY GIBBS
Barbados

Tax disharmony

SIR—A farewell to pan-European tax harmonisation is hard to spot among the raft of European Union tax projects in the pipeline; and even more difficult to discern after the recent censure of Ireland over its tax cuts ("Farewell, pan-European tax harmony?", February 10th). Underlying much of the recent EU criticism of Irish tax policy is jealous resentment of its low corporation-tax rates. Denmark's prime minister, Poul Nyrop Rasmussen, recently criticised the Irish tax rate and demanded a minimum harmonised corporation tax across the EU. The European Commission's wide-ranging study of company taxation, to be published in May, will further accelerate demands for harmonisation. This concerted bid to harmonise company taxes across the Union could hardly be said to amount to a retreat. Nor could Frits Bolkestein's recommendation of "aggressive" use of the tax powers already vested in the EU.

The commission also proposes a range of new transport taxes as well as remaining committed to the introduction of a harmonised VAT system, which could mean the end of Britain's zero rates for products such as books, newspapers, children's clothes and food. Most radically of all, Belgium's prime minister, Guy Verhofstadt, recently called for a directly levied European tax to be slapped on all taxpayers. I see no evidence that Brussels is hoisting the white flag on tax just yet.

THERESA VILLIERS MEP
Conservative European Economics Spokesman
Brussels

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL

DISPLACED PEOPLE

When is a refugee not a refugee?

Mar 1st 2001 | BUNDIBUGYO, GENEVA AND MAE SOT
From The Economist print edition

AP

People who are trapped by war or persecution within their own countries need help as much as, or more than, official refugees. But the world has been slow to appreciate their plight

Get article background

IN THE past few months, rebels from Sierra Leone and soldiers from Liberia have clashed with Guinea's army in a piece of land known as the Parrot's Beak, where the borders of all three countries meet. Now the armies of Liberia and Guinea are threatening full-scale war in the area. This is where 250,000 refugees, mostly from Sierra Leone, have been sheltering for several years, many dependent on food from the United Nations and foreign aid groups.

As fighting has worsened, their plight has become more desperate. Aid workers have fled and supplies of food and medicine have been disrupted. Fearing a huge humanitarian problem, Ruud Lubbers, the new UN High Commissioner for Refugees (UNHCR), made his first official trip abroad last month to West Africa and the Parrot's Beak. He heard that tens of thousands of people are even volunteering to return to Sierra Leone—until now known, reasonably, as the worst place in the world.

As Mr Lubbers is finding, similar nightmares exist in every continent. Go, for example, to Asia and the border of Myanmar, formerly Burma. Roughly 1m people have fled Myanmar for Thailand in the past decade, in search of food and jobs but also fearing for their lives. Around 100,000 refugees are crammed into camps along that border. They tell of slave labour, violence, murder, torture and destitution back home.

Life is not easy in the camps. The one at Umpiang, near the town of Mae Sot, is squalid, wet and cold. Slippery orange mud makes it almost impossible to walk up the steep hill from one smoky hut to the next. In a crowded schoolroom, children cannot hear their teacher when the rain thunders on the iron roof. Camp leaders worry that there is too little for the 4,000 youngsters to do. They are turning to *yabba*, an amphetamine made nearby, or to heroin, smuggled across the border from Myanmar. In the makeshift hospital the doctor talks of typhoid, dysentery, respiratory and urinary infections, malaria and malnutrition.

Yet these displaced people are relatively lucky. They are officially considered to be refugees, as defined by the UN refugee convention that was drafted half a century ago:

> the term "refugee" shall apply to any person who...owing to a well-founded fear of being persecuted for reasons of race, religion, nationality, membership in a particular social group or political opinion, is outside the country of his nationality, and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country.

Mr Lubbers and his commission believe that respect for that narrow definition of a refugee—someone

driven “outside the country of his nationality”—is extremely important. Protecting refugees who have fled their own country is his “core concern”. Preserving their legal rights, such as ensuring that governments do not practise “*refoulement*” (forcing them home), is a top priority.

The good fortune of these refugees is that they have some legal protection and some political value. Refugees from Myanmar show how unwholesome that regime is, much as, during the cold war, defectors to the West from Eastern Europe were welcomed as heroes who demonstrated that life was more attractive under democracy. Vietnam’s 1.3m boat people delivered a similar message in the 1970s and 1980s. And although few of today’s refugees carry an equivalent ideological value, they have a legal claim to assistance merely because they have crossed a border—even if, as in the case of the people at Umpiang, they have hardly come very far.

As many, and as needy

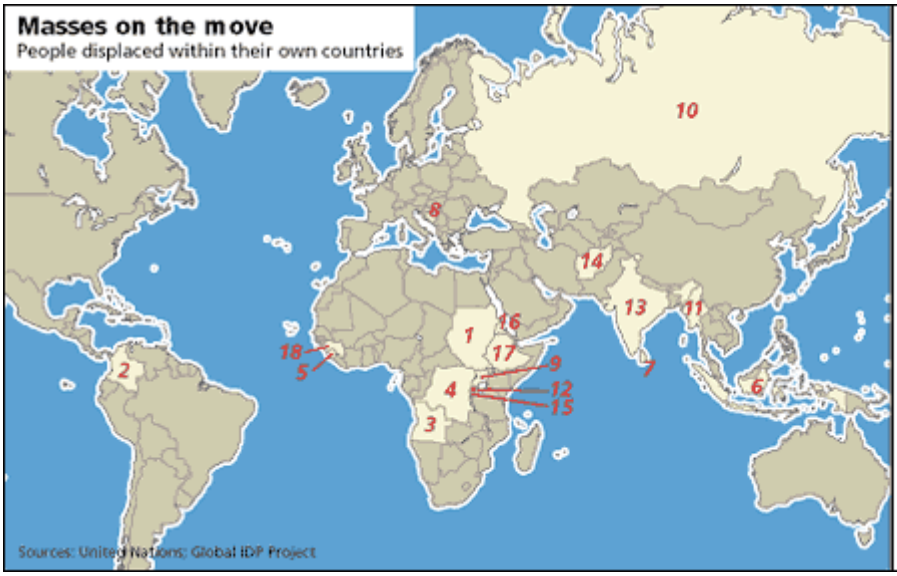
AP

According to UNHCR, which has just marked its 50th anniversary, in December 1999 there were 12m such “genuine” refugees who had spilled over borders. The refugee agency also keeps a watchful eye on 1.2m asylum-seekers and on 2.5m refugees who have returned home. That is not so many in a world of 6 billion, given the wars and chaos of the past decade. Just after the second world war, in Europe alone, there were an estimated 40m displaced people.

However, with a broader understanding of the term “refugee”, today’s number quickly grows. There are now thought to be 150m people living outside their own countries. Many, of course, do so of their own free will. Large numbers do not. According to groups less attached to the UN definition, such as the United States Committee for Refugees, at least 14m people have fled over a border. And an estimated 3.5m Palestinian refugees are usually not counted in such totals at all.

But all these figures miss the fastest-growing group of displaced people: those who do not cross borders, but are adrift inside their own countries. UNHCR, which has no explicit mandate to care for these people, says it has helped to care for roughly 7m of them last year. In fact there are closer to 25m such displaced people, in over 40 countries. About half are in Africa, with the rest mostly in the Balkans, Central Asia, Sri Lanka and Latin America.

Because they are harder to define than refugees and because, until now, no effort has been made to count them, nobody knows for certain how many exist. There are thought to be 4m displaced people in Sudan alone, and over 2m in each of Angola and Colombia. Dennis McNamara, a veteran of the UN refugee body and now the UN’s co-ordinator on internal displacement, says that there are many millions more people displaced within their own countries than there are refugees, especially in Africa. This month he will give a report to the UN’s secretary general, Kofi Annan, on these “internally displaced people” (IDPs), demanding that more be done to help them.



	Country	Number of IDPs,'000*
1	Sudan	4,000
2	Colombia	2,000-3,000
3	Angola	2,300
4	Congo	1,800
5	Sierra Leone	900-1,200
6	Indonesia	876
7	Sri Lanka	800
8	Bosnia	793
9	Uganda	724
10	Russia	650
11	Myanmar	600
12	Rwanda	600
13	India	527
14	Afghanistan	400
15	Burundi	327.5
16	Eritrea	310
17	Ethiopia	272
18	Guinea	150

*Latest estimates

Although these people are not recognised as refugees, they are often just as vulnerable. At least 70,000 Guineans, for example, have been displaced and trapped along with the refugees from Sierra Leone in the Parrot's Beak. Many also wander back and forth in the Great Lakes region of Africa. In Burundi, the government has forced hundreds of thousands of people into "protective villages", supposedly to guard against rebel attack, but in reality to prevent them giving support to rebel armies.

In a valley in western Uganda, near a small town called Bundibugyo, there is a camp roughly the same size as Umpiang in Thailand. Again, it is full of frightened people: Ugandans forced by a cruel rebel army from their farms and homes in nearby hills. As in the Thai camp, people live in small huts, some of them just straw or rags, the more substantial of wood. Although it is safer to be in the camp than outside it, women leave during the day to tend their fields up on the valley sides. At night rebels often enter the camps to steal, to abduct children as soldiers or guides, or simply to spread terror. Whole families have been murdered as they slept.

The camp suffers a longer list of medical ailments than the one in Thailand, but has an even more ramshackle hospital. There are also hundreds of youngsters with little to do and only a makeshift school. But, unlike Umpiang, this camp receives few visits from journalists or diplomats. The UN Children's Fund stops by to help; the World Food Programme delivers grain, but it is sometimes the wrong sort. The Ugandan army tries to give protection and a few young men also carry guns, but they can give little security to most families.

In this part of the country, 90% of the inhabitants, about 100,000 people, have been forced from their homes by fear and violence. Many have travelled long distances on foot to get to a camp or to the relative safety of the town of Bundibugyo, which is now several times its old size. But none has crossed an international border. None can claim to be a refugee. They are not the concern of international law, or of the UN. Although their needs are great, efforts to help them are therefore quite inadequate.

Get ready for many more

Future wars are likely to produce far more such people, rather than official refugees. Most wars are now within, and not between, countries. Especially in Africa, but also in the Balkans, Chechnya, Sri Lanka and Afghanistan, civil wars have pitted civilian militias against government armies; rebel groups have forcibly recruited civilians to fight; and the populations of whole villages or towns have sometimes become hostages of one side or the other.

Reuters

Another tent city, this time in Afghanistan

Today there are some 35 armed conflicts going on around the world. Some of these wars are the result of a geopolitical shaking-out after the cold war, and so might be expected to abate. But others are the product of collapsing states, heightened ethnic tensions and violence driven by economic goals (such as diamond extraction in Sierra Leone and battles for oil in Angola). Some are simply the result of large-scale banditry.

Repressive rulers, such as Iraq's Saddam Hussein, also displace their own populations. Ethnic cleansing in Yugoslavia sent millions back and forth as nationalist Serbs, Croats and Bosnians formed their own fiefs. The outpouring of refugees from Kosovo into Macedonia and Albania caused a subsequent displacement of Albanians in their own country. Inside Kosovo, hundreds of thousands were displaced but never crossed a border. As once-stable countries fall apart, new internal borders are drawn up and fought over. But as long as locally displaced people never cross an internationally recognised frontier, the outside world (and UNHCR) has no duty to take action.

Even where a duty is felt, as in the case of Kosovo, it is far harder to help somebody who is displaced within a country than a refugee who has crossed a border. Assisting the displaced requires intervention into sovereign territory, often against the wishes of the government. Even where outsiders have been available to give protection, there have been many failures. The Iraqi government's attacks on Kurds led outsiders to create a "safe-haven" for the displaced, but Kurds have still been constantly attacked. In 1995, UN soldiers were unable to stop massacres of displaced Bosnian Muslims sheltering in Srebrenica and Zepa. In Sierra Leone, where hundreds of thousands of displaced people have now taken shelter from rebels in areas controlled by UN soldiers, it is unclear whether they could be protected against a sustained rebel attack.

Interventions by bodies such as UNHCR and its 500 partner-NGOs are increasing, sometimes in combination with military forces. Yet these still lack the legal imperative of actions to help refugees. The International Committee of the Red Cross, by contrast, assumes responsibility for some locally displaced populations, and is given certain legal dispensations to allow it to help needy people who have not crossed a border. Should the UN, openly and officially, take on a similar charge?

Some officials, such as Kofi Annan, the UN's secretary-general, Sadako Ogata, the outgoing UNHCR, and Richard Holbrooke, the former American ambassador to the UN, have argued that it should. The UN already helps some displaced people alongside refugees. Since 1999, it has spent over $100m on programmes that partly cover IDPs in Sierra Leone, Angola, East Timor and elsewhere.

Mr Annan and Mr Holbrooke called for a broad expansion of UNHCR to take care of all such refugees. Mrs Ogata talked in October of expanding its brief, but admitted that could be difficult: "In Africa, the number of refugees is large, but the number of IDPs is huge. We cannot be responsible for all of them, [and] sometimes IDPs are much worse off than the refugees." She argued that expanding the responsibilities of the UN refugee body would be a "resource problem", but no more than that; with the help of enough people, it ought to be possible.

Mr Lubbers, her successor, has a very different view. He expects the UN organisation and its budget (recently $1 billion a year) to shrink. More of its work will be farmed out to aid groups or other parts of the UN, and even private companies or rich individuals will be asked to help refugees.

Mr Lubbers wants to concentrate on official refugees alone, although he accepts that, as part of the "UN family", his organisation must take note of internal refugees. He cautions against trying to help too many. There is a risk, he thinks, that refugee rights could be blurred if extra help goes to those who have

not crossed a border. UNHCR's statute makes clear where its responsibilities lie, even if, on the ground, it is sometimes very hard to distinguish official refugees from the locally displaced.

Yet the UN as a whole, through bodies such as the World Food Programme and Unicef, the children's agency, could do much more to help internal refugees if local governments allowed it. That will be the proposal in Mr McNamara's report, which also points out that those governments have primary responsibility for people displaced in their territory. The first step, in many cases, is to get governments to admit that they have displaced populations at all.

Sometimes, as during civil wars or when states are collapsing, it will be impossible to get permission from host governments to help IDPs. But outsiders know that help is ineffective without co-operation, or at least non-interference, on the part of local officials and soldiers. In Uganda or Burundi, for example, aid and protection get to internal refugees only when the governments allow it. In the Parrot's Beak in West Africa, help for refugees and displaced people depends on the goodwill of at least three governments and one rebel group. Without it, do-gooders risk becoming entangled in a civil war.

Before they seek asylum

How can the UN persuade aid-donors and host countries to take more responsibility for the internally displaced? It can argue that stable populations are essential for economic development. It can push for efforts to remove the causes of mass displacement, by tightening rules on the trade in small arms, diamonds, timber, oil and other goods which helps fuel wars in poor countries. Peacekeepers help too: hundreds of thousands of IDPs will soon go home in Eritrea and Ethiopia as the UN redeploys after a peace agreement there. "It must be part of a broader effort to deal with the nasty side of globalisation," says Mr McNamara.

If donors consider their own interests, they may also want something to be done about the internally displaced before they become refugees, and then asylum-seekers, in rich countries. Already, the biggest donors to UNHCR tend to be the countries that receive the highest number of official requests for asylum. These countries have every incentive to dry up refugee flows at source, if possible by containing people within their own borders.

After the cold war, asylum applications rapidly increased in Europe, peaking at 700,000 in 1992. After a decline, they have been going up again, reaching nearly half a million a year once more by the end of 1999. Cheaper air travel, an increase in trafficking in humans, a growing wealth gap between poor and rich countries, and demands for cheap labour in Europe and America will all encourage more such applications.

Western European countries have responded to bigger flows by tightening asylum procedures, granting only temporary asylum to those fleeing wars and speeding the repatriation of people who lose claims to stay. Some western countries have also diverted such applicants to Eastern Europe, which since 1997 has become a net importer of asylum-seekers rather than a net exporter.

It may be prudent, therefore, to give IDPs aid and protection before they decide to seek a better life elsewhere. Delivering that aid and protection may be cheaper than dealing with huge increases in the numbers of asylum-seekers. Such help will not be easy. But as borders weaken in a globalising age, the importance of internally displaced people will come to rival that of refugees; and the duty of outsiders to do something should become all the more obvious.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The great exploding tax cut

Mar 1st 2001 | WASHINGTON, DC
From The Economist print edition

George Bush has made a bold tax cut the defining issue of his presidency. It is risky economics, and risky politics too

SIX weeks into his presidency, the salient fact about George Bush is that he has the lowest opinion-poll rating of any president at this stage for the past 50 years (since, indeed, Republicans last held the White House and both houses of Congress). That was before his recent address to Congress—his first big public-policy speech. His popularity will rise after it; that always happens. But the gap will remain. Bill Clinton's rating at this point was 63%. George Bush senior's was 76%. George W.'s is 55%.

This is a useful warning against any false sense of optimism engendered by what has been, by any measure, a successful start to the presidency. Appointments have gone smoothly, and there have been no unforced errors. Yet Mr Bush's poll rating shows that America's political environment has not changed fundamentally since November. Only 22% of respondents to a recent poll in the *Washington Post* said that cutting taxes should be his top priority; 35% said he should concentrate on boosting programmes such as education and health care. The partisan divide is deeper than can be bridged by a month of calm presidential conduct.

This mandate-less environment is forcing Mr Bush to focus what little political capital he has, largely on one part of his policy agenda. Paradoxically (or bravely, according to choice), he has settled on the very part that voters seem most sceptical about. Recall that during the campaign he laid out an ambitious array of promises: to reform Medicare and partially privatise Social Security; to deploy a national missile-defence system and rebuild the armed forces; to boost education spending; and to cut taxes.

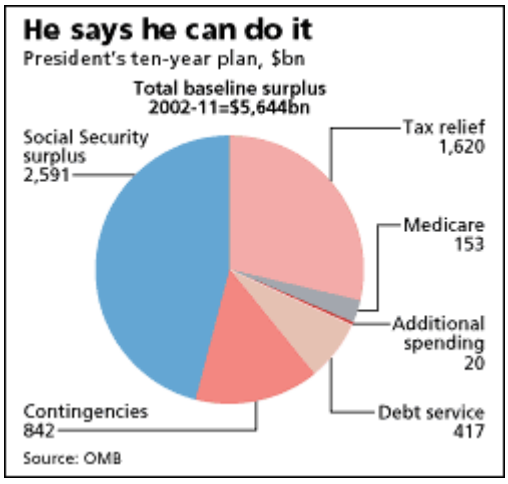
During the first half of his speech to Congress, he addressed each of these promises as if he were genuinely starting to deliver on them. On education, he is. He wants federal spending to rise by 11.5% next year. As part of his drive to unleash charity, he proposes to give more people tax breaks on their charitable donations.

But consider what is happening to the other bits of the agenda. He has set up a presidential commission on reforming Social Security. Nothing wrong with that: reforms like this take years. But this new one simply means that the political fight over reform has been booted down the road. Medicare is likely to meet the same fate; so is defence, which is also subject to a review and may end up the biggest victim of Mr Bush's need to accord priorities to his promises. There is nothing in his proposed budget that would remotely finance, say, the $900 billion-worth of high-tech weaponry that the Joint Chiefs of Staff want. Even a more modest modernisation depends on the existence of a $1-trillion "contingency fund" that may turn out not to exist.

So that leaves the tax cut. In the speech, Mr Bush presented this as a refund to taxpayers after his spending promises have been fulfilled. But it is more than merely a residual. It has become the defining

issue of his presidency, the square on which he has plunked his political capital.

In doing so, he is running straight into the story of the great exploding tax cut. His target for tax reduction, he says, is $1.6 trillion over ten years. It is, he points out, about 1.5% of forecast GDP over the period. That is less than a third of the total forecast surplus. Yet this immovable, affordable target is not quite what it seems.



Last year, when the figure of $1.6 trillion was bandied about, it referred to the sum of the proposed tax cuts for 2001-11 (then $1.3 trillion) and the roughly $300 billion in extra interest charges that are incurred when tax cuts leave the national debt higher than it would otherwise have been. The current $1.6 trillion refers to something else: tax cuts alone for the period 2002-11. In addition, the government will incur extra interest costs, and these are now closer to $400 billion because the tax cut is larger. The budgetary cost of Mr Bush's $1.6 trillion tax cut is now getting on for $2 trillion.

It does not end there. On top of this come three more charges which are not required (and do not appear in the budget) but might be unavoidable. First, there are roughly $100 billion of tax breaks (mostly for companies) which have been renewed regularly for a decade. Formally, they expire this year. History tells you they will be renewed and ought to be included in the calculations.

Next comes the so-called alternative minimum tax, a sort of expanding safety-net in the income-tax code designed to ensure that higher-rate tax-payers cannot use exemptions to avoid taxes altogether. According to Bill Gale of the Brookings Institution, it would cost $130 billion merely to keep the AMT from affecting more people by 2010 than it does today, regardless of any tax cut; and if you want to ensure the AMT does not get in the way of cutting taxes, the sum rises to $380 billion.

Lastly, Mr Bush has said he would like to backdate some of the tax relief to the start of this year (normally the budget and the tax cuts come into force in October). Depending on what is made retroactive, the cost could either be trivial or (say Democrats) more than $100 billion. Add all that together and the total cost of the "$1.6 trillion" tax cut ends up anywhere between $2.1 trillion and more than $2.6 trillion.

Now do the budget sums the other way, starting with the surplus. The ten-year total surplus, says the president's budget, will be $5.6 trillion. Of this, $2.6 trillion lies in the Social Security Trust Fund which, by law, cannot be used for anything except Social Security and paying down debt. Another $400 billion may be off-limits in the Medicare budget in the same way. So the usable (on-budget) surplus may be only $2.6 trillion. Subtract the tax cut from that, and what is left after financing the operations of government is somewhere between zero and $500 billion—not the almost $1 trillion contingency fund that the administration says it has set aside. Most of the on-budget surplus is now going back to taxpayers.

There is a strong case for that. After all, as Mr Bush likes to say, they earned it. And even on his assumptions, Mr Bush would be able to pay off all but $1 trillion of the national debt, which is as low as you can go without trying to buy back non-maturing debt that people might not be willing to sell.

It is true, as these calculations show, that there would be less slack in the budget than the administration claims. Against that, many of its assumptions are cautious, so things could turn out better than expected. For example, Mr Bush's ten-year forecasts for GDP are below the so-called "blue chip consensus" of leading forecasters. The estimates of revenue growth as a share of GDP are even more conservative than Mr Clinton's were, and those turned out to be underestimates almost every year.

Yet there remains a huge problem on the spending side. Mr Bush's budget assumes that he will be able to persuade Congress to keep the growth in discretionary spending down to 4% next year. That compares with an average of 6% in the past three years and 9% last year. Over the next decade, he wants to keep real discretionary spending constant. He makes no allowance for population growth, and hence his budget implies a drop in real spending per citizen. Moreover, this (unfeasibly low) level of overall spending allows for increases in Mr Bush's priority areas, such as education. Other areas, including agriculture, see outright cuts this year. Such frugality, argues the administration, can be

achieved by banning pork-barrel projects and budgetary gimmicks. Good luck. Last year congressional Republicans agreed to extremely tough overall spending figures, only to ignore them completely later on. With Republicans in control of all three branches, Mr Bush cannot do Mr Clinton's trick of vetoing spending bills, backing up the veto by threatening to close down the government, and blaming the other side.

Sifting through this evidence, then, a prudent observer would conclude that Mr Bush's spending figures are too low, while the cost of his tax plan is underestimated. The president's budget looks too good to be true. Unless revenues and GDP both rise more than expected, something will have to give. It will probably be either shiny new guns, or fiscal prudence.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Trade policy

Whoduzzit?

Mar 1st 2001 | WASHINGTON, DC
From The Economist print edition

UNLIKE most countries, America has no trade minister. That's fine as long as someone emerges as the pre-eminent force on trade issues, as Charlene Barshefsky, the former trade representative, did in the last administration. But in the supposedly tight ship run by George Bush, trade policy finds itself down in the galley—caught by hungry wonks in a tug-of-war in which personal stature, as well as ideology, is at stake.

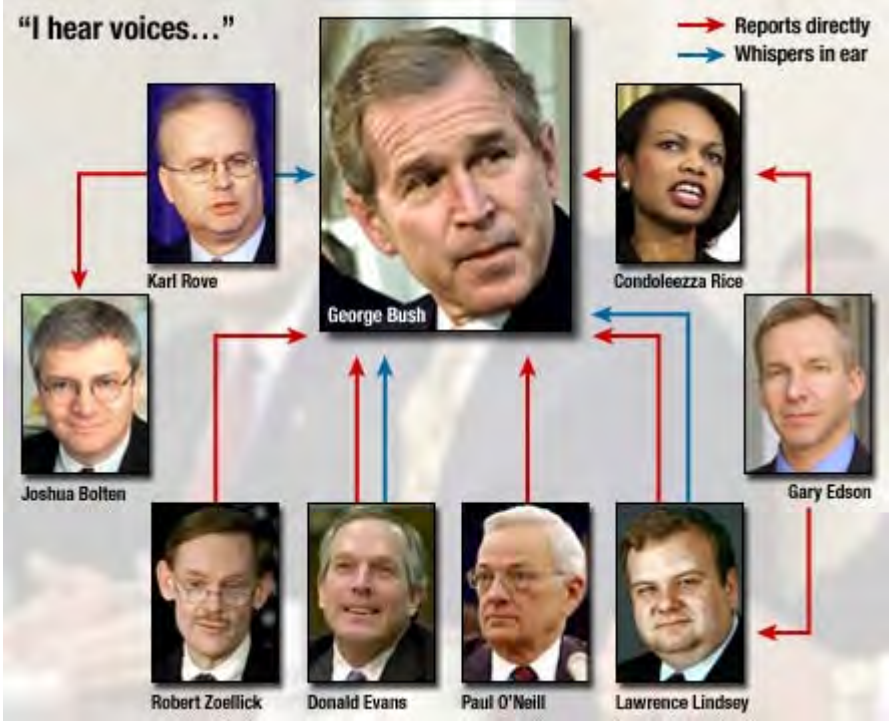
The power-grab began in the White House before Ms Barshefsky's successor was named. Both Lawrence Lindsey, the president's chief economic adviser, and Condoleezza Rice, the national security adviser, made early claims on the trade brief. Mr Lindsey, despite the domestic focus that has hitherto dominated his career, wants a say in all things economic. Ms Rice, a student of political economy but no expert on multilateral negotiations, believes that international trade helps to determine national security.

Of the two, Mr Lindsey is closer to the president's ear. Nevertheless, their dual claim has led to the unprecedented appointment of a joint underling: Gary Edson, the deputy assistant for international economic affairs, who started work this week. Mr Edson, who served as chief of staff for the previous Bush administration's trade representative, Carla Hills, will report to Mr Lindsey and Ms Rice. Mr Edson recently added a big gun to his team in the person of Peter Allgeier, a framer of the Free-Trade Agreement of the Americas.

Another White House trademonger and veteran of the first Bush administration is Joshua Bolten. Mr Bolten, the president's deputy chief of staff, was Ms Hills's general counsel for three years. Karl Rove, one of the president's most trusted backroom voices on virtually every issue, is nominally his subordinate. Mr Bolten was widely cited as a contender for the post of trade representative, now filled by Robert Zoellick, and he will lead the effort to reinstate trade promotion authority (TPA) for his boss. Formerly known as "fast-track", TPA allows the president to negotiate details of trade pacts without congressional interference.

Mr Zoellick, a protégé of James Baker with a thick resumé from the Reagan and earlier Bush administrations, may find himself at odds with the White House. For starters, the battle for TPA—which Ann Veneman, the agriculture secretary, recently called the administration's top trade priority—is not an attractive one for Mr Zoellick to fight. His post might have lost its cabinet-level status were it not for interventions by members of Congress; some see him as their man at the big table. But Democrats in Congress also harbour doubts about giving up their power to add labour standards to trade deals, a practice Mr Zoellick opposes. Pushing for TPA will require some serious horse-trading.

AP/Reuters



Mr Zoellick also considers engaging America's biggest trading partners more important than conquering Latin American markets—the favourite goal of the Bush administration. In a 1999 essay, Mr Zoellick wrote that America should concentrate on overhauling relations with Europe and Japan. He repeated this point in his confirmation hearings and plans to work with Pascal Lamy, a long-time friend and Europe's trade commissioner, to build momentum for the new round of multilateral trade talks. Mr Zoellick may find that his ideas place him outside Mr Bush's inner circle.

Paul O'Neill, the new treasury secretary, shares Mr Zoellick's global outlook and carries ammunition that makes him hard to ignore: the government's purse-strings and the cautious faith of corporate America. But Messrs O'Neill and Zoellick could both be trumped by Donald Evans, the commerce secretary. Mr Evans ran Mr Bush's campaign for the White House and is the closest cabinet member to the president's ear. On the other hand, he could be tainted by his department's protectionist tendencies.

The wild card in this race resides in the State Department, with the under-secretary for economic affairs. That person could truly compete for pre-eminence in trade, according to Sidney Weintraub, a veteran diplomat and scholar based at the Centre for Strategic and International Studies (which Mr Zoellick used to head). There's a problem, though—no one has been named to the post.

The situation in Washington is made all the more mysterious by the cocoon in which Mr Zoellick has enveloped himself. Although Messrs Evans, Lindsey and O'Neill and Ms Rice have all spoken to the press, Mr Zoellick has kept mum. He has yet to fill nine senior posts (including Mr Allgeier's) on his staff and is expected to be incommunicado for a few more weeks. In the meantime, others may be tempted to take over.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Democrats and the Clintons

Is it time to say goodbye?

Mar 1st 2001 | WASHINGTON, DC
From The Economist print edition

Get article background

THERE comes a point in most abusive relationships when the battered spouse decides that enough is enough. Has the Democratic Party finally reached the splitting point with Bill Clinton?

The most thankless task at the moment is trying to find Democrats who are willing to go on the talk shows to defend Mr Clinton's decision to pardon Marc Rich (a fugitive tax-evader, if you've been on Mars). Even such hard-boiled loyalists as James Carville and Paul Begala have refused to do so. For its part, the liberal press is discovering the joys of Clinton-baiting. Bob Herbert in the *New York Times* urges the Democratic Party to undo its "pact with the devil"; "The man is so thoroughly corrupt, it's frightening."

AP

He won't go quietly

The pardon scandals give the Democrats their best chance of kicking the bum out for good. But will they? Divorces are seldom clean or simple. The Democrats have no obvious candidate to take Mr Clinton's place. Al Gore lost a slam-dunk election. Tom Daschle and Richard Gephardt are on the dull side. Gray Davis, who looked *papabile* for a while, is now embroiled in the California energy crisis. The Democratic National Committee is controlled by one of Mr Clinton's protégés, Terry McAuliffe.

And there is no evidence that the comeback kid will disappear voluntarily. Mr Clinton is likely to escape a criminal conviction over his pardons, and will then begin the familiar work of discrediting his critics. He has clearly convinced himself that he did nothing wrong. Don't all presidents pardon dodgy figures? And don't all serious politicians have to cut corners in order to advance great foreign-policy ends? Mr Clinton's spin-doctors suggest that he was guilty merely of poor judgment: he was too tired in his last days in office to grasp the consequences of his actions, and too preoccupied with taking revenge on over-zealous prosecutors.

This means that the Democratic Party could face a choice between two unpalatable options. The first, and most likely, is that it will remain wedded to a thoroughly tainted Bill Clinton. This will make it even easier for the Republicans to rally America's culturally conservative heartland to their cause in 2004 than it was in 2000. The second is that the party will repeat the mistake that Al Gore made last November, of trying so hard to distance itself from Mr Clinton that it distances itself from Mr Clinton's New Democratic Agenda as well. Some Democrats, such as Ruy Teixeira of the Century Foundation, argue forcefully that the latest scandals help to vindicate Al Gore's decision not just to keep away from his boss, but also to run on a populist ticket.

Still, the recent Clinton scandals have saved the Democratic Party from at least one headache: a run for the presidency by Hillary Clinton in 2004. A month ago it looked as if she was well-positioned to have a go at the party's nomination in 2004, as the champion of the party's liberal wing, the spouse of a charismatic president and a close friend of Mr McAuliffe, the most successful fund-raiser in the party's history.

She is now a much diminished figure. Her brother's involvement in lobbying for pardons (see article) has raised suspicions that she knew what her husband was up to: she tried to kill such suspicions with a dramatic press conference in which she labelled her brother's behaviour "sad", "inappropriate", "regrettable" and a "terrible misjudgment". And several of the pardons benefitted her personally. Mr Clinton pardoned four New York Hasidic leaders, convicted of stealing $40m in student grants, small business loans and housing subsidies, whose community voted solidly for his wife. Denise Rich also gave $70,000 to Mrs Clinton's senatorial campaign.

A recent *New York Post*/Zogby International poll reveals that 55% of New Yorkers don't believe Mrs Clinton's claim that she didn't know anything about her brother's part in the pardons, and only 22% believe that she is doing a good job as senator. The Hillary 2004 campaign could hardly have got off to a more disastrous start.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Bipartisanship by dinner party

Mar 1st 2001
From The Economist print edition

THE guests lean back, their legs forming a double chorus-line of polished brogues and tasselled loafers. Senator Joe Lieberman of Connecticut calls the gathering “Washington’s last salon”. Mark Bloomfield, the host, jokes that it ought to be “Washington’s last saloon” to honour George Bush’s Texans.

This is the monthly dinner of the American Council for Capital Formation, one of those institutions that no one beyond the Beltway has heard of (and not many within it). Politics by dinner party is a Washington habit. All over town, politicians gather to plot plots, talk tactics and schmooze. The council does not have the stop-the-traffic power of a recent evening *chez* Katharine Graham, doyenne of the *Washington Post* (the guest list included President Bush, Alan Greenspan, Bill Gates, Warren Buffett and Colin Powell). But it has practical value: for 25 years, Washington’s influence-peddlers, both Republican and Democratic, have met away from the cameras and grandstanding to discuss the issues of the day and, on occasion, help steer economic policy. The issue of this day: bipartisanship and taxes.

Good choice. In the weeks before Mr Bush’s budget proposal, a handful of Republican senators from the north-east have said they will not support his tax cut. This Yankee rebellion has gone largely unnoticed, eclipsed, like much else, by the brouhaha over Bill Clinton’s pardons. Yet it is important. With the Senate tied, Mr Bush has lost his majority there over taxes and his tax cut now depends on Democrats.

To listen to the senior Democrat at dinner, that may not be much of a problem. Evan Bayh is a senator from Indiana and has just succeeded Mr Lieberman as chairman of the Democratic Leadership Council, the organisation for centrist Democrats. He lays out what might be called the position of official optimism: bipartisanship is more attainable now because the narrow margins of political control mean nothing can be done without the other side. Twenty of the 50 Democratic senators come from the moderate camp; one, Zell Miller of Georgia, co-sponsored an early tax-cut bill in the Senate. The election has slightly increased the influence of moderate Republicans. Everyone is under pressure from constituents not to descend into bickering. Beyond that lies simple fear: Democrats do not want to scupper a tax cut and then find they get the blame for a recession, if there is one.

So, says Mr Bayh, both sides can gravitate towards the middle on a number of policy goals. Education, for example, is “90% agreed upon” (vouchers and more spending make up the 10%). A modest pension reform is possible, short of privatising Social Security. There will be a tax cut. The main differences are on the design of the cut. Democrats are keener on reducing the bottom tax rate than the top. They want to cut payroll taxes as well as income taxes (payroll taxes are more regressive, and weigh more heavily on the middle class). They also want income-tax cuts tied to debt reduction through a “trigger mechanism” (Mr Greenspan has suggested that tax cuts could be triggered by progress in cutting the national debt). The disagreements sound marginal and bridgeable.

In the spectrum of opinion on taxes, the participants at dinner are all bunched in the middle. The Republicans among them are not the fire-breathing conservatives who reckon the proposed tax cut is too small and want to push for the full amount (now around $2.5 trillion) without worrying what Democrats think. The Democrats are not among the big-spenders who think Mr Bush’s numbers are wrong, that his spending restraints are too tight and that it is impossible to cut taxes and the deficit together. The guests personify bipartisanship. They include a Republican from the powerful Ways and Means Committee whose district voted for Al Gore; a Democrat from North Dakota whose constituents voted for Mr Bush; and the chairman of the Wednesday Group, a gathering of centrist Republicans.

Yet as soon as they get down to business, bipartisanship takes a back seat. Phil English, the Republican on the Ways and Means committee, objects to a trigger mechanism because it would impede predictability in tax policy: no one would know from year to year how big their taxes would be, or whether there would be a cut. Jim Kolbe of the Wednesday Group fears the trigger would, in practice, produce incentives to spend: in a year or so, the tax cut would have been passed and forgotten, leaving every pork-barrel politician to concentrate on what he or she likes best: bringing the bacon home to the district. Charlie Stenholm, a conservative Democrat from Texas, objects to the tax cut more fundamentally. It should, he thinks, be calculated each year, in the context of the annual budget, not presented, in splendid isolation, over ten years. Otherwise fiscal prudence will be wrecked, and so, he fears, would bipartisan agreement on other matters, such as reforming Social Security. Even if the tax cut were passed with the support of some Democrats, and even if Mr Bush still had political capital left to spend on Social Security, his potential Democratic supporters (Mr Stenholm reckons) would not. So bipartisan support in one area might come at the expense of cross-party support in another.

As the evening wears on, comity begins to reassert itself. Everyone agrees that Mr Bush will get a handful of Democrats to support his budget. Both sides will have to give and take, if only because, as Mr English puts it, voters want “the atmospherics of bipartisanship”. At the least, everyone agrees, bipartisanship is a means of securing individual deals.

But beyond that, there is little agreement. If the economy picks up again soon, Democrats will lose their fear of being blamed for a recession, and their support for tax cuts will recede. In practice, bipartisan agreement will be limited to a few policy areas. At best it is a recipe for a short legislative agenda and narrow achievements, rather than for fundamental change in the ways of Washington.

And on that note dinner ends, amicably enough. Politicians and business people swap cards. And the congressmen and senators go out into the night, sharing taxis and pleasantries, but not a governing principle.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

St Louis

Mayor's nest

Mar 1st 2001 | ST LOUIS
From The Economist print edition

ALTHOUGH not known for slavishly imitating trends, St Louis appears to be on the verge of following New York, Chicago and Los Angeles in one thing. It is about to replace a black mayor with a white one.

Clarence Harmon, the incumbent, came to office with strong support in the white neighbourhoods. But Mr Harmon's political incompetence hampered his administration from the start. An opinion poll published several weeks before the March 6th Democratic primary, the only election that counts in the city, put his support at 6%, barely above the margin of error.

The only apparently serious contest is between Francis Slay, the white president of the board of aldermen, and Freeman Bosley, Mr Harmon's predecessor. Mr Slay has raised more campaign money than the rest of the field combined and leads in the polls. Moreover, he has built wide support among all voters. His record of hiring blacks in his office has helped him win the backing of Earl Nance, a prominent black clergyman. That, however, has not been universally popular. Indeed, it has earned Mr Nance dozens of death threats.

The biggest problem facing the new mayor is the city's corrupt electoral arrangements. The reputation of the St Louis Board of Election Commissioners makes Florida's look pure. In last November's election, hundreds of registered voters were turned away from polling stations by staff using inaccurate records. So many outraged voters then swamped the courts that a judge ordered the polls to remain open until 10pm—until overruled by an appeals court.

That scandal has since been surpassed. On the last day to register to vote in the Democratic primary for the mayor's race, someone brought in some 3,800 voter registration cards to the election board's headquarters. The cards, most of which were in the same handwriting, named children and dead people as new voters. A grand jury is now hearing evidence about the incident.

Checks of the voters' roll have since found hundreds of registrations at bogus addresses. Perhaps inadvertently, dead voters have not been removed from the lists and changes of address of living voters have gone unrecorded. Missouri's governor, Bob Holden, has hinted that he will replace the entire election board. Meanwhile, John Ashcroft, the attorney-general, who was a senator from Missouri, is sending two federal monitors to St Louis to watch the election closely.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

A new Florida recount

Bush wins: official

Mar 1st 2001 | CHICAGO
From The Economist print edition

ON THE eve of his first big speech to Congress, President George Bush received some heartening news: he may have won the election after all. A study of the 10,644 ballots in Miami-Dade County that recorded no machine-readable vote for president found that Al Gore would have gained a mere 49 votes, even if the most liberal standard for counting a vote (a "faintly dimpled chad") were used.

The study was conducted by a public accounting firm and sponsored by *USA Today*, the *Miami Herald* and Knight-Ridder newspapers (owner of the *Herald*). Miami-Dade was only the first of Florida's 67 counties that they have got to grips with, but it was the one in which Democrats were most hopeful that a recount would show lots more votes for Mr Gore.

The *Herald* concludes that if Mr Gore's request for a manual recount in Miami-Dade and three other Florida counties had been granted, the election outcome would not have changed. Earlier manual recounts in the three other contested counties—Broward, Palm Beach and Volusia—combined with the Miami-Dade numbers show that Mr Gore would not have gained enough votes to overcome Mr Bush's 930-vote margin of victory.

Meanwhile, a rival news consortium consisting of the *New York Times*, the *Wall Street Journal*, the *Washington Post*, Tribune Publishing, CNN, the Associated Press, the *St Petersburg Times* and the *Palm Beach Post* has hired the National Opinion Research Centre (NORC) at the University of Chicago to analyse all 180,000 ballots in the state that did not register a vote when counted by machine, including both undervotes (no vote for president) and overvotes (two or more votes for president). "This is not a recount," says Kirk Wolter, the NORC project director and a professor of statistics at the University of Chicago. "We're collecting enough information so that experts can explore what a count would have been under different counting standards."

Three "coders", trained by NORC, will evaluate each of the ballots in question. Each coder will make an independent assessment of how the ballot has been marked (one corner detached, two corners detached, etc). In addition to shedding light on the vote tally, the study will record the degree of "intercoder variability", or the number of cases in which coders examining the same ballot record different impressions of how it has been marked. Several kinds of voting machines are used in Florida, and some may produce ballots more subject to debate than others, says Mr Wolter.

Mr Bush will stay snug in the White House regardless. But here's hoping all this after-counting will improve procedures next time; for if not, there's little point in it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

A storm in a latte-mug

Mar 1st 2001 | SEATTLE
From The Economist print edition

LATE winter had been calm in Seattle: little rain, lots of sun. That tranquillity came to an abrupt halt at 10.55 am on February 28th, when a sudden, sharp earthquake injured dozens of people, sent piles of bricks tumbling on to city streets and, interrupted a speech to teachers by the head of Microsoft, Bill Gates. One man died of a heart attack.

AP

Better get that seismic retrofit

The quake started with a jolt and lasted more than 20 seconds, plenty of time for residents to notice the ground rippling like ocean surf beneath their feet. With a magnitude of 6.8, it was the sharpest shock in the region since 1949. And although its impact may seem almost risibly small, especially by the world's recent standards, this was in fact an exceedingly close call. A 7.2-magnitude earthquake in Kobe, Japan, in 1995 killed 6,000 people.

Like Kobe, much of Seattle is built on soft fill, which turns to pudding in a prolonged earthquake. Such areas, in fact, sustained the worst damage on Wednesday. A dock for one of the city's commuter ferries was closed after the parking deck buckled because of the quake, and many buildings were closed until they could be checked to ensure safety. Had the quake lasted perhaps ten seconds more, damage could have been much worse.

Seattle is well aware that an earthquake may one day devastate this region. The February 28th shock was a "deep earth" quake, occurring well beneath the earth's surface about 30 miles south-west of the city. Shallow shocks are more dangerous. And the real risk is much closer, in the shape of a giant fault that bisects downtown Seattle and is believed to be responsible for an earthquake that occurred perhaps 1,000 years ago and caused some areas to rise or fall by as much as seven feet.

Better engineering, derived from lessons harshly learned in Japan, California and elsewhere, has produced buildings that are much more earthquake-resistant. The headquarters of Starbucks, for instance, recently had an $8m seismic retrofit that seemed to serve it well on Wednesday, even though the building, erected in the 1920s, sits on sand and soil that once comprised one of the city's infamously steep hills, levelled with high-pressure water 90 years ago.

Still, the rarity of earthquakes in the region means that many vulnerable buildings remain standing. Why? Because they simply haven't been weeded out. Seattle's citizens hope no such weeding takes place soon, but have been reminded how quickly it might.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Oh, brother

Mar 1st 2001 | WASHINGTON, DC
From The Economist print edition

Get article background

THE Clintons have a genius for combining high misdemeanours with low farce. Lately, however, the farce has been provided not by the Clintons themselves but by their relatives.

AP

Hugh Rodham, Billy Carter, can of beer

It was bad enough that the president's half-brother, Roger, a failed pop singer with a taste for cocaine, should celebrate his presidential pardon and live up to his Secret Service codename, "Headache", by getting arrested for drunk driving. Then it emerged that Hillary's brother, Hugh, received a $400,000 success fee for helping to secure pardons for a drug kingpin and a snake-oil salesman. Hillary's little brother was forced to return the money, but not before the country had a chance to gawp at his belly and remember his failed attempt, along with her other brother, Tony, to corner the hazelnut market in the Republic of Georgia.

The Clintons can at least console themselves that they are in the great tradition of American first families. Theodore Roosevelt famously remarked that he could either be president or control his daughter, Alice: "I cannot possibly do both." But Alice was a shrinking violet compared with Billy Carter, an irrepressible good ol'boy who marketed an eponymous brand of beer ("I think it's the best I ever tasted. And I've tasted a lot") and delighted in tormenting his goody-two-shoes sibling with bad behaviour, such as smoking pot on the White House roof and urinating in public. He pushed the joke a little too far when he tried to act as a goodwill agent to Colonel Qaddafi's Libya, a country that topped America's hate-list.

The Reagans were frequently embarassed by their offspring. Patti, an outspoken liberal and bohemian, appeared nude in *Playboy*. Ron became a ballet dancer and appeared on "Saturday Night Live" dressed in his underwear. Both Patti and Michael wrote tell-all books portraying their parents as cold and unloving. The Kennedy relations, of course, engaged in almost every sin under the sun.

Even the Preppie Bushes were not spared from the curse of the miscreant relative. Neil Bush, son of the former presidnet and brother of the current one, featured in one of the country's biggest financial disasters. He was a director of a Colorado bank called Silverado, which went bust almost immediately after his father was elected president, costing taxpayers an estimated $1 billion. He also received a loan of $100,000 from a colleague on the understanding that he would not have to repay it unless the business that it was intended to finance turned a profit. Another Bush brother, Marvin, made a brief appearance during the recent presidential campaign to say that "that great sucking sound you hear is the sound of the media's lips coming off of John McCain's..."

The most common sin is cashing in on a famous name. Richard Nixon's brother, Donald, caused a scandal when it was revealed that he had borrowed $205,000 from Howard Hughes to save his fast-food chain (which featured triple-decker Nixonburgers). Nixon was so worried that he might embarrass him again that he got the Secret Service to tap his phones and keep him under surveillance. Lyndon Johnson's younger brother, Sam Houston Johnson, a self-described "problem drinker", stayed on his brother's political payroll for 23 years and delighted in handing unauthorised "inside information" to the press.

Even Abraham Lincoln had a relative problem in the form of his wife, Mary Todd. Mary's brothers fought for the Confederate side in the civil war (and one of her sisters-in-law even espoused the Confederate cause while staying with her in the White House). Mary was also one of America's first therapeutic shoppers. She assuaged depression by spending lavishly on White House decorations, doctoring official accounts to conceal her profligacy. At least she did not try to take them with her.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Subcomandante Marcos: the Mexican grand tour

Mar 1st 2001 | CANCUN
From The Economist print edition

EPA

Mexico's government and the Zapatist rebels are conducting a war—a war for the hearts and minds of Mexicans

PROTESTERS and journalists had the same dilemma last weekend. Should they head down to the Caribbean resort of Cancun for a meeting held by the World Economic Forum, where half the government was in shirtsleeves discussing Mexico's future? Or should they travel to the south-eastern state of Chiapas for the caravan-cum-roadshow organised by the Zapatist rebels, who had left their jungle enclave for the first time in seven years and were wending their way towards Mexico city to discuss the future of the country's Indians?

A dozen youths were sent to hospital after clashes with the police in Cancun. But, in the end, the Zapatour won hands down. No new policies were announced in Cancun, and the few hundred "globalophobes" who braved police roadblocks and beatings to get there quickly gave up hope of repeating the disruption achieved in Seattle and Prague. The police were out in force; and, besides, the conference centre was at the far end of Cancun's best security feature, a 20km (13-mile) corridor of high-class hotels.

The Zapatour—which will be joined by hundreds of foreign supporters, among them Jose Saramago, a Portuguese Nobel laureate, and Danielle Mitterrand, the widow of a French president—is the biggest confrontation so far in a publicity war between two of the most media-hungry men in Mexico: Vicente Fox, the president, and the self-styled Subcomandante Marcos, the Zapatists' balaclava-clad strategist and spokesman. Both have made publicity central to their success. Mr Fox, a former Coca-Cola executive, often repeats that he will be a "campaigning president", always on the road to promote both Mexico and his government. The subcomandante, for his part, has transformed the Zapatist uprising from a 12-day armed rebellion into a permanent media performance that has made both him and the poverty of Mexico's Indians famous worldwide.

Both men are vociferous about wanting peace, which is how an illegal rebel band that has spent seven years defying the authorities can now spend two weeks travelling the country unarmed and enter the capital with impunity. Notionally, the point of the tour is for two dozen Zapatist commanders to visit Congress and persuade it to pass an Indian-rights bill sent by Mr Fox. The bill, granting Mexico's 10m Indians more autonomy and recognition for their customs, is based on an agreement that the previous government reached with the Zapatists five years ago, and then reneged on. Passing the bill, releasing political prisoners and withdrawing the army from various points in Chiapas are the Zapatists' conditions for agreeing once again to talk to the government and, eventually, to end the rebellion.

The tour's real purpose, though, is to whip up support for the Zapatist cause and to test Mr Fox's mettle. Many congressmen feel that the bill gives Indian communities too much autonomy, and the president, who cares about his democratic credentials, says he will not meddle with Congress's work. That, to some

Zapatists, suggests that he will not mind if the bill is blocked or modified.

The president must therefore seem, at least, to be doing all he can, and he is largely succeeding. Some prisoners have already been released, and some troops pulled out, and Congress will start debating the bill when it reassembles on March 15th. The government has loudly welcomed the Zapatour and is sending thousands of federal police to protect it, despite the protests of some politicans (including members of Mr Fox's own National Action Party, PAN) and the governors of a few of the 11 states on the route.

For the subcomandante, though, it would certainly help to have someone to blame if his mission to persuade Congress fails. He has taken a big gamble with the tour: after such a build-up, it would be hard for him go back to Chiapas empty-handed. He has made much of apparent attempts to hinder peace—criticising the delays in releasing prisoners, and accusing the government of telling the International Committee of the Red Cross not to provide safe-conducts for the Zapatists, which both the government and the Red Cross have denied.

A recent opinion poll published in *Reforma* suggests that most people welcome the tour, but also doubt that it will bring the Chiapas uprising to a quick end. No one, however, wants matters to drag on: the Zapatists risk losing support if they linger in Mexico city, and the government at the end of March wants to start on tax reform, a pillar of Mr Fox's ambitious plans for Mexico.

Both sides, then, want a quick solution. Whether they get it depends on Mr Fox's willingness to lobby Congress for the Indian-rights bill, and how much leeway the subcomandante will allow for modifying it. It will be a triumph for both of them if the bill passes. If it does not, and if the grand tour leader cannot lay the blame on Mr Fox, he faces an uncomfortable choice: back down and negotiate a new agreement, return to the jungle and take up arms once more, or disappear into the obscurity from which he came.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil loses a political kingpin

Mar 1st 2001 | SAO PAULO
From The Economist print edition

DEATH has often robbed Brazil of its political leaders at crucial moments. In 1985, Tancredo Neves, the first civilian president after 21 years of military rule, died before taking office. President Fernando Henrique Cardoso's economic reforms lost momentum after two political fixers, Sergio Motta and Luis Eduardo Magalhaes, died in 1998. Now, as Mr Cardoso struggles to hold his coalition together, he faces losing another vital ally, Mario Covas, the governor of Sao Paulo state, who was gravely ill this week.

Mr Covas played an important role in Brazil's return to democracy and economic stability. Having been kicked out of Congress by the generals, he returned at the dictatorship's end to help write a new constitution and, with Mr Cardoso and others, to create the Social Democrats (PSDB), the most influential party in the present governing coalition. He was its unsuccessful presidential candidate in 1989. Three years later the victor, Fernando Collor, facing roaring inflation, tried to bolster his government by inviting the PSDB to join it, with Mr Cardoso as foreign minister. In rejecting this, Mr Covas saved the party and Mr Cardoso from being dragged down by the corruption that caused Mr Collor's downfall soon after.

When Mr Cardoso became president in 1995 on the back of his inflation-beating plan, Mr Covas, elected governor of Sao Paulo, helped out by restoring the finances of Brazil's biggest state. Although irked at Mr Cardoso's rightward shift, Mr Covas always backed him when difficult reforms needed to be passed. And though Mr Cardoso's ministers sometimes seemed afraid to defend their policies, Mr Covas relished taking on critics: last year, turning 70 and already in poor health, he had a series of public shouting-matches with striking state workers.

Before his health worsened, some allies had wanted him to run again for the presidency next year. More likely, he would have been a kingmaker. His departure from politics is a blow for Tasso Jereissati, the Social Democratic governor of Ceara state, whose candidacy Mr Covas backed. Others in the party support Jose Serra, the health minister. Mr Cardoso now hopes to hold together his party and coalition (he sacked two ministers from the conservative Liberal Front last month for alleged disloyalty), find a candidate around whom they can unite, and push through some more reforms before the election. On all this, he could have done with Mr Covas's support.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Ottawa

The boom is an echo

Mar 1st 2001 | OTTAWA
From The Economist print edition

TIMES are good in Ottawa, Canada's capital. Posh restaurants seem to open daily, new houses are sprouting up and unemployment is low. The entire country prospered last year: the economy grew by 4.7%. But no city could top Ottawa's 6.5%.

Not everyone welcomes such torrid growth. Many point to California's Silicon Valley as an example of too much, too fast. In Ottawa, traffic jams were unheard of ten years ago; now they are pretty common. Still, most cities would accept some congestion in exchange for high-paying, low-polluting jobs of the sort Ottawa has attracted. High-tech industry, led by such giants as Nortel Networks and JDS Uniphase, has been the engine of growth. Last year these two telecoms companies alone hired 10,000 new workers in Ottawa.

Software companies such as Corel and fresh-faced start-ups have also helped to make Ottawa into Canada's "new economy" capital. According to Adam Chowaniec, head of both Tundra Semiconductor and the local economic development corporation, over $1 billion in venture capital flowed into the city last year, more than a quarter of the Canadian total.

Two hundred years ago, Ottawa's prosperity depended, like Canada's, on natural resources. Barges of logs floated down the Ottawa River on the beginning of their trip to European markets. In time, government displaced commodities, and today one worker in six works for the federal bureaucracy. But in recent months government in its turn has been overtaken by high-tech industry, which now employs about 79,000 people. As a former mayor puts it, the city has gone from white pines to red tape to blue chips.

One snag about these new jobs is that they are highly dependent on export markets. Mr Chowaniec reckons that 90% of Ottawa's high-tech revenue comes from sales abroad, mostly in the United States. Only a few months ago, with demand there apparently insatiable, all seemed rosy. Yet, as the American economy has faltered, so too has Ottawa's. Nortel and JDS Uniphase recently laid off 2,000 workers. The gleam is fading.

This may not be such a bad thing for Ottawa. Most of the locals argue that growth of 6% a year is unsustainable if services are to keep pace. But the contraction carries a more chilling message for other parts of the country, which may be less well-off than Ottawa but just as reliant on the American market: 86% of Canada's exports—one-third of all production—goes to the United States. Such dependence on one customer is risky.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Insults and jitters in Cuba

Mar 1st 2001 | HAVANA
From The Economist print edition

AP

TRYING to guess what the Cuban president, Fidel Castro, is up to is always hard, but there is more tension than usual in the air at present. The foreign minister, Felipe Perez Roque, recently called in foreign journalists to rebuke them for their coverage of Cuba, and on February 23rd the government carried out one of its swoops on dissidents, arresting at least two dozen and then releasing them, slowly, over the next few days.

The reason, peculiarly enough, seems to be that the United Nations Human Rights Commission in Geneva will vote next month on whether to condemn Cuba's human-rights record. Last year, the decision went against Cuba by 21 votes to 18, mostly because of increasing attacks on dissidents. So, in a move that presumably makes sense if you are a Cuban bureaucrat, Cuba has gone after dissidents again.

In Cuba's view, of course, the real offence against human rights is the 40-year embargo imposed against the island by the United States, which keeps it in a state of deprivation. Cuba sees itself as a victim-state, with a behemoth against it, which should not be blamed for trying to defend itself. Officials are convinced that countries vote against Cuba only because the Americans force or bribe them to.

Even friends cannot be trusted. The Czech Republic is an old chum, but it was also one of the joint sponsors of last year's UN vote, which led to huge protests in Havana and, this January, the arrest of two prominent Czechs for "making subversive contacts with counter-revolutionary residents". After more than three weeks in jail, they were released when they apologised. Argentina, another old friend, abstained at the UN and has been pilloried ever since for neo-liberal economic policies and "licking the Yankee boot".

But perhaps the most bizarre incident came at the start of this year, on the Feast of the Epiphany, when diplomats from the Spanish embassy, dressed as the Three Kings, went in horse-drawn carriages through Old Havana throwing out sweets for children. The Cuban authorities accused them of deliberately setting up a scene in which hungry, desperate Cuban children would have to scrabble in the gutters, and attacks on Spain followed on Cuban television. Yet Spain, too, is a friend and old ally, despite a slight coolness under the government of Jose Maria Aznar.

Why, when Cuba so badly needs friends, does it do its best to insult them? For two reasons. First, it seems to calculate that the attacks will do no permanent damage, but will make the friends more sensitive to Cuba's grievances. Second, it wants to test how firm its friends are.

One of Cuba's staunchest allies over the years has been Mexico. It still is, but the appearance of Vicente Fox as president has changed the calculation. Though Mr Fox is planning to visit Havana, he has already met the new president of the United States, George Bush. So, too, has Jean Chrétien, the prime minister of Canada, the country with the biggest investment in Cuba. And that is probably the main reason for the nervousness in Havana: that its friends are busy cosying up to Mr Bush. But there is no indication yet of whether Mr Bush will be nicer, or nastier, to Cuba.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Peru

A woman's touch

Mar 1st 2001 | LIMA
From The Economist print edition

AP

Flores stands for honesty

"UNIMPEACHABLE" reads the message on Lourdes Flores's campaign posters. Miss Flores, the candidate of the centre-right alliance, National Unity, is the only woman in Peru's presidential race; and, as the April polling day draws near, voters seem increasingly to like her image of integrity. In January and February two opinion polls, by Apoyo Mercado y Opinion and Datum Internacional, showed her support soaring by 13 and 19 points respectively.

Until then, the election had seemed a one-horse race: the horse being Alejandro Toledo, who had dominated early campaigning after being beaten by the disgraced ex-president, Alberto Fujimori, in a rigged poll last April. Mr Toledo is now running at 33%. Miss Flores has 25%.

Even Peruvians are a bit surprised. The motherly Miss Flores, who is a lawyer, is best-known in Lima, where she was a congresswoman for the Popular Christian Party between 1990 and 2000. She has been involved in politics, and proud of it, since her teens. But, to most, she is just a good debater with a frumpy dress sense (like Hillary Clinton, she favours trouser suits) and a huge lopsided smile. In 1995, when she last ran for president, she bowed out early after barely making a mark in the opinion polls.

This time, however, the election has been almost eclipsed by a huge corruption scandal. Hundreds of secretly shot videos seized from the home of Vladimiro Montesinos, Peru's fugitive spy chief, have revealed the duplicity and venality of many of the country's politicians, army officers, judges and businessmen. On February 23rd, Peru's Congress formally brought criminal charges, of abandoning office and dereliction of duty, against Mr Fujimori, who presided over the mess and whom many blame for it.

Now all that the voters seem to want is somebody clean. This, according to Manuel Torrado, the head of Datum, is Miss Flores's big plus: she is a woman, and women are generally considered less corrupt. Women themselves do not mind her opposition, as a staunch Roman Catholic, to abortion, since feminism is uncommon in Peru.

Businessmen like her, too, for her conservative and pro-market views. Although her economic programme and Mr Toledo's are quite alike—both emphasise job-creation and help for farmers and small businesses—Pablo Secada, an analyst with Santander Central Hispano Investment, thinks Miss Flores has better economic advisers. Mr Toledo, with his promises of wage rises for teachers and police, a lower sales tax and 300,000 new jobs a year, has veered a bit further left than investors like. This has made Miss Flores look right-wing by comparison.

In a country where half the people are poor, Mr Toledo still has the advantage of being better known in far-flung places and more popular among the lower classes. They appreciate his Indian roots and his inspiring rise from shoe-shine boy to presidential candidate. And it may be that, having flirted with a woman candidate, the voters will decide they are not ready to see a woman at the top. Yet if it goes to a second round, their vote will not be about gender or even corruption; it is likely to be about which candidate can bring more jobs to Peru.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

India's breakthrough budget?

Mar 1st 2001 | DELHI
From The Economist print edition

The lip-service so long paid to economic reform by India's government now starts to sound more genuine

THE mood was grim before India's finance minister, Yashwant Sinha, stood up in Parliament on February 28th to tell the country where the government would try to lead the economy during the forthcoming fiscal year. Growth is said to have declined sharply, to what is expected to be under 6% in the fiscal year just ending. Farmers and industrialists are fretting about the impending removal of the last import quotas (on April 1st) and about cheap manufactures from China. The economic reforms that began a decade ago have slowed to a crawl.

By the time Mr Sinha finished presenting his budget, people were feeling better on all three counts. He cut income-tax and interest rates, giving the economy an old-fashioned lift. He imposed high enough tariffs to reassure those producers who are most anxious about quantitative restrictions being lifted, especially car-makers and farmers. At the same time he shaved the peak duty on most items (from 38.5% to 35%) and promised to cut it to 20% within three years. Most heartening was Mr Sinha's willingness to hack away at some of India's most gnarled policies, such as those that limit employment and hamstring small business under the illusion of protecting them. It is where he is being most ambitious, though, that the government will have the hardest time delivering.

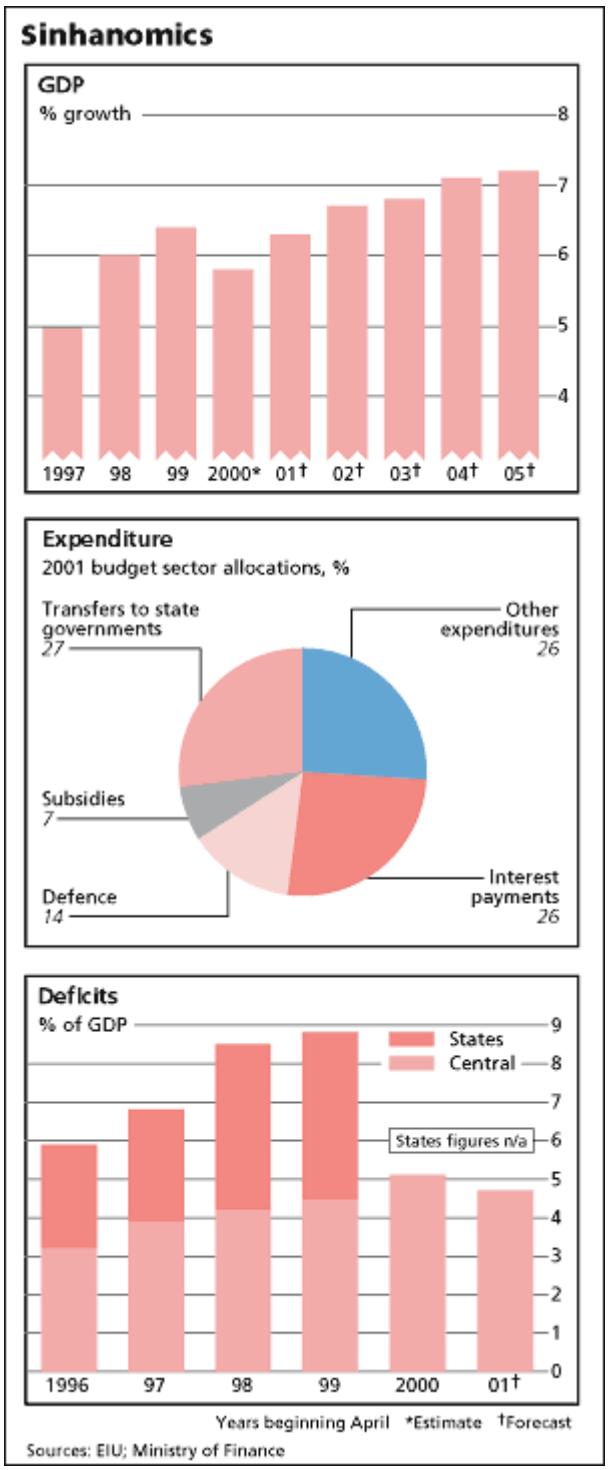
Reuters

India's reform package

Although fiscal deficits (of some 9% of GDP, including those of the states) are thought to be India's biggest economic problem, Mr Sinha did not present a fiercely austere budget. This did not seem to matter much—partly because the economy appears to be slowing, partly because the deficits are a drag rather than an immediate disaster. Despite them, India has $40 billion of foreign-exchange reserves. Mr Sinha congratulated himself for hitting this year's unambitious deficit target for central government of 5.1% of GDP. He is aiming for a modest decline to 4.7% of GDP next year.

But the budget sows the seeds of bigger deficit cuts in the future. Interest rates are kept artificially high by government-mandated rates on small savings and pensions. So Mr Sinha cut them, by a higher-than-expected 1.5 percentage points, and hinted that he would move towards letting the market determine them. This is the budget's "most central feature", says Surjit Bhalla, head of Oxus Fund Management in Delhi. It "attacks the debt trap head-on" by cutting the government's interest cost, which is nearly as high as the deficit and by far the largest single item in the budget.

Mr Sinha pleased taxpayers by dropping tax surcharges—of 15% for individuals and 11% for companies—while leaving in place a temporary 2% surcharge to help deal with the effects of the earthquake in Gujarat. He hopes to recoup some of the revenue by taxing some previously untaxed services and extending a programme to catch tax dodgers. There is help for the capital markets, including a halving of tax on dividends to 10% and elimination of taxes on long-term capital gains that are invested in new equity issues.



Mr Sinha whetted knives for four troublesome sacred cows. The simplest to dispatch will be rules that restrict many activities to small companies only, a policy that in effect guarantees they will be unfit for international competition. Mr Sinha plans to end such reservations for 14 products in three industries, leather, shoes and toys.

The other reforms will require co-operation from a stroppy opposition and unenlightened state governments. One is the dismantling of the oppressive labour-law regime. Mr Sinha wants to allow companies with fewer than 1,000 employees to be able to lay off workers without government permission; the new ceiling is 100 employees. To promote outsourcing, he suggests ending a ban on contract labour. These ideas drew shouts of anger from the assembled members of parliament, who must endorse them.

It is mainly up to the states to clean up the mess India has made of its electricity industry. The losses of the state electricity boards, which generate and distribute much of the country's power, come to 240 billion rupees a year (about $5 billion, or 1.2% of GDP). Their bankruptcy means erratic power supplies and high costs for businesses that cannot afford interruptions. The threat of default by Maharashtra's electricity board on payments to an American-owned power plant is rattling the confidence of all foreign investors in India. For his part, Mr Sinha plans to make some financial aid to states contingent on

reforms, such as the metering of all customers and the setting of tariffs by independent regulators.

Mr Sinha aims to raise 120 billion rupees next year from privatisation, bravely in light of the government's failure to come anywhere close to this year's less ambitious target. The ministries that run privatisable companies hate the idea, as does the opposition. The government has just agreed to its second-ever "strategic sale", of an aluminium company. A fuss by the opposition has forced the government to put the deal to a parliamentary debate, though it promises to go ahead. The government bases its plans for next year on the experience it has now acquired in selling stakes in enterprises to firms that will manage them, and the priming of several for at least partial privatisation. These include two airlines, the biggest car manufacturer and a telecoms company.

The budget sent share prices soaring and prompted economists to raise their growth forecasts for the next fiscal year. Lower tax and interest rates and an array of sops are a big part of the reason. The enthusiasm must also reflect the hope that, in its upper reaches, India's government is no longer a half-hearted defender of economic reforms but their champion.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wahid wanders while Borneo burns

Mar 1st 2001
From The Economist print edition

Get article background

AP

Days of Dayak rage

INDONESIA seems fated never to have a good week: no matter how many things go right, the country is too big, too dispersed and too troubled for that. This week was a relatively peaceful one in the separatist province of Aceh, with “only” 17 people killed. Sectarian clashes in the Moluccas were not unusually troubling. The recent violent protests outside parliament and in East Java have faded from the television screens. And with the president abroad, even Indonesia’s impeachment debate got a rest. Instead, this week’s tragedy came from a remote and forgotten corner of the country, in the form of a savage outbreak of violence in Borneo.

The bloodshed stems from a long-simmering feud between Borneo’s native Dayaks and migrants from the island of Madura, off the south-eastern coast of Java. The Madurese were among those—mostly Javanese—who had moved under the sponsorship of a government programme intended to relieve pressure on overpopulated areas. The locals in Kalimantan, the Indonesian part of Borneo, have long resented the incursion on their land and economic life. Their anger has twice led to outbreaks of killing, in 1997 and 1999.

This time, the trigger appeared to be an attack by a small group of Dayaks in the Kalimantan town of Sampit. The violence quickly spread, with Dayak attackers beheading many of their Madurese victims in and around the provincial capital, Palangkaraya, and deep into the jungle. By mid-week, between 270 and 500 people were reported dead. Another 30,000 Madurese had fled the island, and thousands more were huddled in refugee camps.

Adding to the tragedy has been the security forces’ pitiful response. The police have admitted that their troops fled when confronted by a group of Dayaks outside Sampit, abandoning the Madurese to their attackers: 118 people were massacred as a result.

Abdurrahman Wahid, the president, has been criticised for failing to cut short a foreign trip, though the vice-president, Megawati Sukarnoputri, did visit Kalimantan this week. Amien Rais, a former member of the ruling coalition who now wants the president impeached, blasted Mr Wahid for having “a cup of tea overseas”. The president claimed all was in control, and that the armed forces had told him so. He could not have cited a less reliable source.

As happened after two previous outbreaks of violence in Borneo, the survivors of this week’s massacre will probably have to abandon Kalimantan for good. Eventually, the slaughter will be overshadowed by drama elsewhere in the vast island chain of 210m people, and the problems in Kalimantan will be left to fester—until they again cry out for attention.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

South-East Asia's press

Publish and be chastised

Mar 1st 2001 | KUALA LUMPUR AND BANGKOK
From The Economist print edition

With so many politicians railing against the media, might something good be happening?

IN LATE 1998, while the leaders of various countries in Asia and the Pacific gathered in Malaysia, local protesters denounced the treatment of Anwar Ibrahim, who had recently been sacked as deputy prime minister, arrested, and then beaten while in custody. Mr Anwar's photogenic black eye had been splashed on magazine covers across the world, bringing an avalanche of foreign criticism down on the government of Mahathir Mohamad. So, after dispersing the small crowd of protesters with water cannon, a local police chief boasted of having ordered that one of the cannons should be turned on foreign journalists. Since they were the cause of all the trouble, he reckoned, the protest would break up once the foreign media were dealt with.

Many politicians in the region seem to share his attitude. In Indonesia, for instance, though coverage of Jakarta politics and corruption has become fair game since the fall of President Suharto in May 1998, the government is uneasy about the reporting of the mayhem in distant provinces. It has recently hinted at barring foreign journalists from such incendiary places as Aceh, Irian Jaya and the Moluccas. A parliamentary committee is debating a law that would punish reports that "underscore violence".

Thailand's new prime minister, Thaksin Shinawatra, has also butted heads with the media. In January, after his Thais Love Thais party had won a thumping election victory, foreign journalists spoiled the fun by asking awkward questions. They dwelt on his vast telecoms empire, on his expensive campaign promises, on his recent indictment by an anti-corruption body, and on his half-hearted endorsement of Thailand's new democratic institutions. Although Thailand's treatment of the press is far more liberal than Malaysia's, Mr Thaksin has already taken a page from Dr Mahathir's book, arguing that only Thais really understand Thais and that foreigners are biased against him because of his assertiveness.

Yet it is not just foreigners but also many local journalists and civic groups that are distressed by Mr Thaksin's ascendance. Last month, iTV, a supposedly independent television station, sacked 23 staff who had complained about its election coverage, arguing that it had become uncritical of Mr Thaksin, whose Shin Corporation is its largest shareholder. Civic groups openly worry that he will appoint his cronies to a new national broadcasting commission. Some local papers have been downright hostile.

Elsewhere in South-East Asia, too, local media can be just as pesky as foreign ones in holding governments accountable—and are far more influential on the domestic stage. In Indonesia, local broadcasters have been quick to condemn the proposed new media law, arguing that it would stifle their coverage. And then there is the Philippines, home to the region's freest press, where people power may have taken the credit for bringing down former President Joseph Estrada but media power did much of the work.

Singapore remains a model of tameness as far as its press is concerned, but even in Malaysia a few local journalists have distanced themselves from the sycophantic mainstream media to provide critical coverage of the government. The most notable are those at Malaysiakini.com, an online news outlet which has consequently found itself under attack for allegedly taking money from George Soros, an investor who is the pet hate of Malaysia's officials. This week, Malaysiakini.com published its financial records in an effort to refute these claims. Its editor, Steven Gan, admits that his site is partly paid for by the South-East Asian Press Alliance, which in turn has taken money from Mr Soros. But he says that Mr Soros's money went to another cause.

Still, despite a few outlets such as Mr Gan's, the chasm between local and foreign media sets Malaysia apart from its three liberalising neighbours. More than two years after Mr Anwar's black eye, the government still has not come to terms with foreigners' coverage of the country. It still resorts to impounding or delaying foreign magazines to whose contents it takes exception. Last week, a new joint committee of the information and foreign ministries announced it would recommend new ways "to counter the foreign media attacks".

In fairness to Malaysia's government, many opposition leaders also seem to think that the foreign press is their faithful ally. Mr Anwar's wife, Wan Azizah Ismail, who leads the Keadilan party, has been known to ask foreign journalists which questions she should raise in parliament.

Moreover, at least one of Dr Mahathir's complaints seems accurate. In their articles exposing the fallout from the Anwar trial, many foreign journalists tended to exaggerate the strength of Malaysia's opposition, both within and outside Dr Mahathir's United Malay National Organisation. Although there were no reliable polls, it has long been clear that many Malaysians supported the prime minister's approach.

Still, foreign coverage of Malaysia is a model of neutrality compared with the local variety. At the ruling party's annual meetings, local journalists often cheer the speakers while they watch on closed-circuit television. They have been vicious in their attacks on Mr Gan. By contrast, it was the *Far Eastern Economic Review*, a foreign magazine that the government loathes (and impounded this week), which reported Mr Soros's "connection" to Malaysiakini.com.

For all its bluster, however, Malaysia's latest initiative is unlikely to change much. A spokesman at the information ministry says that it will continue to contest unwelcome reporting through oral denunciations and letters to editors. The bigger worries may be those in Thailand. Its famously free press may not be independent enough for whatever Mr Thaksin has in mind.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Kazakhstan

In defence

Mar 1st 2001 | ALMATY
From The Economist print edition

WHEN the Soviet Union broke up ten years ago, the leaders of Central Asia's newly independent states felt safe from possible attacks on their region. Their main concern was to promote order, economic reform and the assertion of power for themselves and their families. They were jolted out of their complacency by bomb blasts in Tashkent, the capital of Uzbekistan, in February 1999 and an attack by Islamic militants in Kirgizstan in August. Last year Islamists again attacked both countries.

Although Kazakhstan was not directly affected by these attacks, they have alerted the country to look to its defences. President Nursultan Nazarbaev has set about making Kazakhstan's armed forces capable of dealing with what he believes are the main threats to the state: terrorism as a result of religious extremism, and organised crime.

He is strengthening defences in the south, in the mountainous border regions from which an Islamic incursion might come. He wants his soldiers to be more mobile. Sniper groups are being formed. Villagers with local knowledge of the terrain are being recruited as guides. The country's defence budget has been more than doubled this year to $171m, or 1% of GDP. Soldiers' pay is to go up by 30-40%.

One difficulty is that Kazakhstan's borders were not clearly defined in Soviet times, so it is difficult to decide what is a "border incursion". Kazakhstan has 14,000km (8,750 miles) of borders with neighbouring states. It has agreed on its border with China, but it is still negotiating with Russia, Kirgizstan, Uzbekistan and Turkmenistan. Bulat Sultanov, of Kazakhstan's Institute of Stratgic Studies, worries that "our border troops cannot carry out any operations because there is no legal basis for them."

Last year, Uzbek border guards entered southern Kazakhstan and claimed a stretch of land. Since then, there have been several brushes between Uzbeks and Kazakhs, mostly villagers unclear about which country they are living in. All this is a distraction from the task of making the south of Kazakhstan more secure.

Then there is Afghanistan. Although Kazakhstan is not a direct neighbour, the fiercely Islamic Taliban who control most of Afghanistan are a worry to all of Central Asia. They are believed to provide training for extremists, among them the Islamic Movement of Uzbekistan (IMU), which wants to set up a caliphate in the Fergana valley, where Kirgizstan, Tajikistan and Uzbekistan meet. The IMU was said to be behind the attacks in Kirgizstan and Uzbekistan in the past two years and is thought to be preparing another assault before long.

Most of Kazakhstan's military equipment dates back to the Soviet period. Replacing, say, old helicopters used in the border areas will be expensive, but necessary. In January a Mi-8 helicopter crashed in the south, injuring the defence minister, Sat Tokpakbaev, who was aboard. Another helicopter crashed near

the Chinese border two weeks ago, killing six people.

Kazakhstan will receive arms from Russia worth $20m this year as part of its annual payment for the use of a space-rocket site at Baikonur. It is due to receive over $4m from the United States to improve border security. The government might also consider some non-military measures. Government repression and mismanagement help to nourish extremism and terrorism in Central Asia. An effort to improve social and economic conditions and freedom of expression might make Kazakhstan less fertile ground for militant zealots.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

China

The same to you, too

Mar 1st 2001 | BEIJING
From The Economist print edition

CONSIDERING how much it loathes the Falun Gong spiritual movement, and how deeply it resents the West's persistent interest in its treatment of China's citizens, the past week has been an annoying one indeed for the Chinese government, which has found itself having to talk about little else. Accusations and criticisms have come in from all directions and the Chinese have responded in kind.

In a combative visit to Beijing, Mary Robinson, the UN's high commissioner for human rights, told Chinese leaders she was concerned about thousands of cases of severe abuse reported to her office. She urged the abolition of China's "re-education-through-labour" system, an innocuous term for its brutal gulag. The system, long used to handle drug offenders and prostitutes—and more recently the stubborn people who continue to perform Falun Gong exercises in the face of a government ban—was inherently arbitrary and lacking in proper legal procedures. Nonsense, said Liu Jing. Recently installed as head of the government's new Office for the Prevention and Handling of Cults (ie, the Falun Gong), Mr Liu said inmates at the camps have adequate recourse to administrative appeals, and officials anyway treat these inmates as "teachers treat their students, doctors treat their patients, and parents teach their children". Mrs Robinson's problem, he said, was that she simply had a poor understanding of the Falun Gong's evil, cultish nature.

Not to be outdone, Mrs Robinson told reporters several hours later that she had no desire to debate the nature of the Falun Gong. She simply insisted "that individual Falun Gong members have human rights that must be respected" and said it was clear their rights were now being disregarded on a large scale throughout China. She also took the opportunity to discuss with Chinese leaders allegations made this month in a report by Amnesty International. Dismissed by China as sheer rumour, the report said torture and killings remain "widespread and systemic" in China's penal system.

Such bickering aside, Mrs Robinson did see her way to praise the significant progress she had observed in China's overall efforts to foster the concept of the rule of law. And she expressed hopes that China's parliament, the National People's Congress (NPC), would attend to human rights in its annual plenary session, due to begin on March 5th.

The day after her departure from Beijing, the NPC obliged in part when its standing committee ratified the UN's "international covenant on economic, social and cultural rights". China declined, however, to commit itself to clauses in the covenant giving workers the right to form unions and to strike. Mrs Robinson had said that any such reservations would be "extremely disappointing".

In another spirited exchange, China then traded insults with the United States, whose State Department on February 26th reported a dramatic worsening of China's human-rights performance last year. It cited not only the crackdown on the Falun Gong, but also the mistreatment of ethnic minorities, underground Christians and political activists. Mention was made too of an apparent erosion in Hong Kong's freedoms. The report claimed that more than 100 Falun Gong practitioners had died as a result of torture or mistreatment in custody.

China promptly struck back with its own catalogue of human-rights problems in America. American democracy, it said, is "a rich man's game" and a "myth", pointing to the recent presidential election. Gun violence is rampant, China said, juveniles are routinely imprisoned and executed, health care is lacking, the wealth gap growing.

Unfriendlier still, America also announced its intention to sponsor a UN resolution later this month condemning China's human-rights offences. Various administrations have done this before, but often half-heartedly. China, meanwhile, has lobbied other UN members skilfully each year, and managed always to keep any resolution from passing. The fate of the resolution this time may well depend on whether the European Union chooses to support it. In recent years, it has declined to do so, but last year only after an anguished internal debate.

Paradoxically, the resolution may be helped along by China's success in persuading the Americans and others to stop threatening rights-related trade sanctions. China has long insisted that trade and human rights must not be mixed, and foreign business has agreed. With the debate now settled in China's favour, however, it is hard to avoid the conclusion that the annual session of the UN Human Rights Commission is just the place to air China's lamentable record. What else, after all, is the session for?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

From bad to worse, down on the farm

Mar 1st 2001 | BRUSSELS
From The Economist print edition

The crisis in European agriculture could force fundamental changes in the European Union's common agricultural policy. At last

Get article background

Reuters

Unpleasant for the peasants

THE European Union has launched so many ambitious ventures in recent years—a common currency, a single market and a mooted defence arm—that it is possible to forget that it spends more money on agriculture than on any other activity. Even today, after years of trying to hack back the budget of the common agricultural policy (CAP), over 46% of the EU's budget goes on farm subsidies.

But though farmers may not make the EU look glamorous, they have a way of making themselves felt. On February 26th, when the Union's farm ministers gathered in Brussels for their monthly meeting, they found themselves in an area surrounded by barbed wire and truncheon-wielding policemen. The farmers were in town to show their fury at falling beef prices. But the mood of crisis did little to foster agreement. The EU's ministers left town still at odds over how to deal with the "beef crisis". If, as many fear, the outbreak of foot-and-mouth disease in Britain (see article) is about to spread to the rest of Europe, then both politicians and farmers may soon be coping with a new and even stickier set of problems.

The CAP is under heavier fire than ever before. In the short run, coping with the beef crisis could bust the EU's farm budget. In the longer run, the BSE crisis and now foot-and-mouth should step up the pressure to change the very basis of the EU's agricultural policy.

The scale of the Union's subsidies to farming is enormous. The OECD notes that in 1999 the EU was paying out an average subsidy of $17,000 to every full-time farmer in the Union, compared with an average of $11,000 in countries belonging to the OECD. The EU's efforts to boost the prices paid to farmers have made its citizens pay a lot more than world prices for their food. The average family in the Union is thought to pay around $1,200 a year extra for it as a result of the EU's farm policies.

There have been some modest reforms of the CAP in recent years. Agriculture's share of the EU's budget, once two-thirds of the total, is now under half. The Union has also managed gradually to reduce the amount of money going towards market-distorting price supports. Nowadays 65% of subsidies go straight to the farmers.

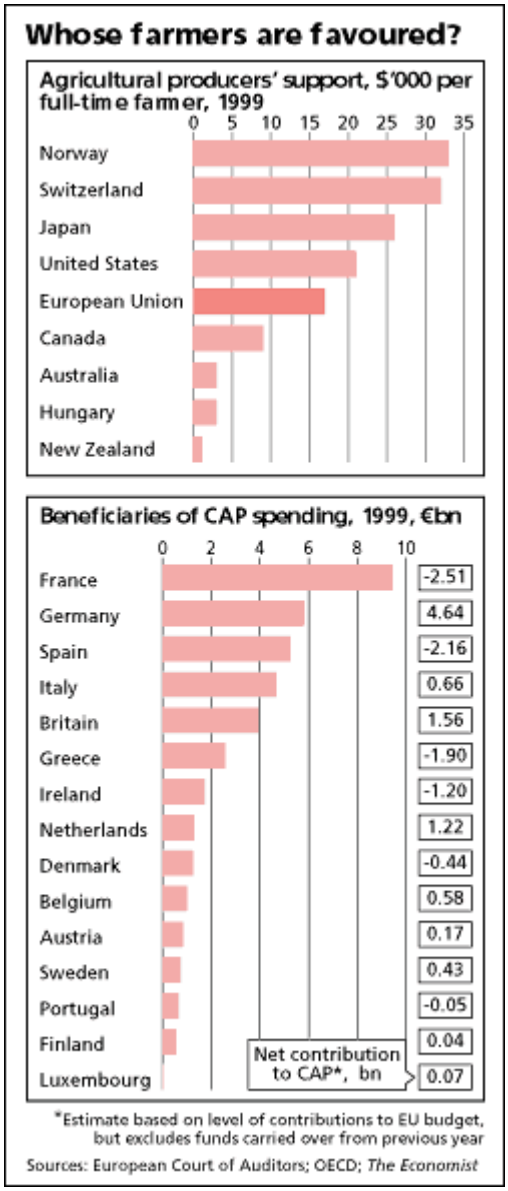
But the EU's efforts to constrain its spending on farming, particularly on price supports to farmers, are threatened by BSE. The cost of "emergency measures" to deal with it, largely the purchase and slaughter of cattle, has so far been almost *euro*1 billion ($918m), out of a total farm budget of *euro*42.8 billion for 2001. The European Commission, the EU's policymaking civil service, is still insisting that it will be able to finance this extra spending by reallocating cash within the existing agricultural budget.

But the commission's calculations on the beef market are based on increasingly shaky assumptions. Specifically, the EU is banking on demand for beef falling by only about 15% this year. Yet it has already dropped by 27% and in certain markets it is in free-fall. Since the BSE scare hit the continent, German appetites for beef have shrunk by 50-80%.

As a result, the commission may be squeezed between competing, yet legally binding, obligations. For one thing, it must not overspend the assigned agricultural budget, which is meant to be fixed until 2006. For another, it is supposed to buy all beef that

comes on to the market at under 60% of a previously fixed EU "support price". Already the prices of some sorts of cattle have fallen to this level, which could trigger huge EU spending. If prices continue to fall, the commission could, in theory, be obliged to buy every head of cattle in the EU.

The budgetary strains implied by this obligation are already causing rifts between EU countries. France favours the commission's proposal to slaughter all animals more than 30 months old and then to destroy their carcasses, both to contain BSE and to reduce the amount of beef coming on to the market. The Germans and the Dutch are against it, partly on ethical grounds. Objecting to what some have called a "cow Auschwitz", the Germans have been much slower to slaughter cattle and want to be allowed to store their carcasses for future sale—which would further depress prices. As a result, the French are complaining that they are bearing a disproportionate share of the burden of reducing the amount of beef for sale in Europe.



A greener future?

Behind these arguments lie deeper strains about European agriculture's future. Cynics used to joke that the founding bargain in what became the EU was that "German industry would pay for French agriculture." Now the BSE crisis is threatening to break the Franco-German bargain on agriculture.

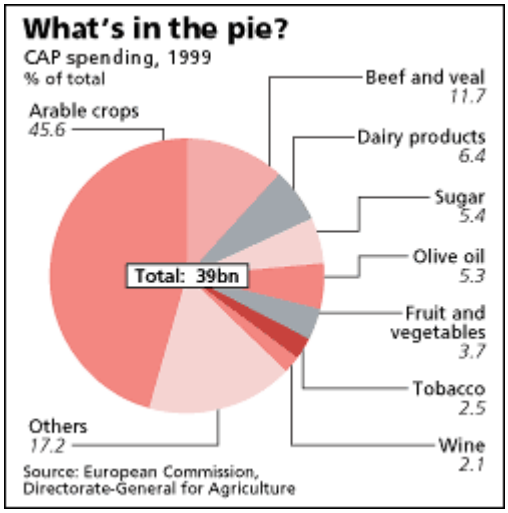
Specifically, the appointment of Renate Künast, a Green, as Germany's new agriculture minister may herald a big change in German thinking. Miss Künast wants to redirect the CAP dramatically. Subsidies, she says, should help organic farming, not the intensive methods that now predominate. And she has allies. Wolfgang Clement, a leading Social Democrat who runs North Rhine-Westphalia, recently said that prices for agricultural goods should no longer be guaranteed, arguing instead that farmers should meet "social and ecological criteria" if they want cash subsidies. Chancellor Gerhard Schröder himself now says he favours "rearing animals in a natural way with ecologically sound farming methods".

Such German views have profound implications for the CAP.France, backed by the commission, will resist any move to let beef prices fall to their market level. The commission is arguing, rather lamely, that normal rules of supply and demand cannot apply when demand is collapsing because of consumers' panic.

The call to "renationalise" agricultural subsidies will also rattle countries such as France, Spain and Greece, which do very well out of the CAP. German farmers also get fat farm subsidies from the system, but Germany puts far more into the pot than it takes out. So, if countries had to cushion their own farmers (presumably in some sort of agreed EU framework), the Germans would end up paying less than before. Hence French opposition to

renationalising.

But Lionel Jospin's Socialist-led government may inadvertently have given the campaign to renationalise the CAP a boost by suggesting that, if the EU remains determined not to spend more to help BSE-afflicted farmers, then France itself will put together a package of emergency aid—to help its own. The upshot is that, faced with mad cows, pan-European agricultural solidarity has taken a big knock.



The Germans' second main pitch on the CAP—a call for a greener agricultural policy and a shift to organic farming—is bound to go down well across Europe. Franz Fischler, the EU's agriculture commissioner, who comes from ultra-organic Austria, has supported the idea of giving more help to greener and smaller-scale farmers.

But organic farming may not be the panacea it is whooped up to be. Even on Miss Künast's most optimistic projections, organic produce will account for only a fifth of Germany's food within a decade, up from 2.5% today. Organic stuff is expensive, and people are used to relatively cheap food. Even if the price supports that boost EU food prices were dropped as part of an overall CAP reform, a shift to organic production would make food costlier. Moves to favour organic farming within Europe might also make the EU's farmers much more vulnerable to competition from elsewhere; imports from less regulated intensive farms in places like China and Brazil might soar.

It may have required a crisis to force a fundamental rethinking of the CAP. But the thinking evidently still has a long way to go.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Football

The game's over—almost

Mar 1st 2001
From The Economist print edition

IT HAS taken six months of hard battling with the European Commission. But by next week European football—the world's most popular sport on its richest ground—should be in the clear. Short of a last-minute upset, the transfer-fee system, which keeps small clubs alive and in which big ones have invested huge sums, will survive; reformed, indeed, but essentially in place.

Into the stratosphere
Selected football transfers

	Year	From	To	Fee $m
Figo	2000	Barcelona	Real Madrid	56.1
Vieri	1999	Lazio (Rome)	Inter Milan	50.0
Ronaldo	1997	Barcelona	Inter Milan	27.9
Shearer	1996	Blackburn	Newcastle	22.4
Papin	1992	Olympique Marseille	AC Milan	17.7
Gullit	1987	PSV Eindhoven	AC Milan	9.8
Maradona	1982	Boca Juniors (B. Aires)	Barcelona	5.3
Rossi	1978	Juventus (Turin)	Vicenza	3.4
Cruyff	1973	Ajax (Amsterdam)	Barcelona	2.3
Anastasi	1968	Varese	Juventus	1.2
Omar Sivori	1957	River Plate (B. Aires)	Juventus	0.3

Sources: Reuters; www.footballtransfers.co.uk; *The Economist*

Football players have been peddled between clubs for a century. But transfer fees—the cash paid by the new club to the old—have soared: in money terms, about 200-fold since 1960. Yet was the whole market built on sand? In 1995 came the first tremor, the Bosman decision. A Belgian club, eager for its fee, had refused to let a player of that surname join a French one, though he was already out of contract. Fair enough, said the rules of UEFA, the sport's governing body in Europe. No way, said Mr Bosman's lawyers—and the European Union's highest court agreed: those rules infringed EU law on the free cross-border movement of labour.

As it had to, UEFA gave way: out of contract, a player was now a free agent. Yet fees went on soaring, to last year's record $56m, paid by Real Madrid, a leading Spanish club, for Luis Figo, a Portuguese virtuoso. Then came the big shock: any cross-border transfer fee, be the player in contract or out of it, hampered free movement, said the EU's commission. And the fees broke competition law too, since only big, super-rich clubs could afford the super-high cost of the superstars. The whole system had to go.

The reasoning was odd: it is not just in football that only rich businesses can afford the finest facilities and staff, or tie down star executives with long-term contracts. But the commission had a big stick: the heavy fines it can exact for anti-competitive behaviour. Football—not only UEFA by now, but also the world body, FIFA—could not just hunker down and hope.

FIFA's first reaction was an own goal: so be it, transfer fees for players 24 years old or more could go. At that point the game's real masters, the big clubs, swarmed angrily on to the field: "We take the risks, we sign the contracts, not FIFA," snorted the German champions, Bayern Munich, whose boss, Franz Beckenbauer, was in his day a legendary player himself. Minor clubs, meanwhile, were shivering. Some survive only by selling good players, often ones they have themselves trained, to the big clubs.

Only then did the real haggling begin. Even EU governments were drawn in: they agreed at their Nice summit in December that sport was special, not just any old business. And the commission showed much more understanding and readiness to compromise than its initial bombshell had suggested. Deadlines came and went with no deal but no break-up. Meeting in Brussels on February 27th, the commission tied

up with UEFA and FIFA all but the last, albeit tricky, details of a deal. The two sides hope to seal it at a meeting of their grandees on March 5th.

It will loosen the grip that clubs now have on players. But the essential structure of the transfer market will stay in place. Indeed, in theory only cross-border transfers are affected. In reality, probably all will be. Thus:

• Players' contracts will range from one year to five. At any point (though only at two "windows", summer and mid-winter), if the two clubs and the player agree, an amicable transfer will be possible. This means that money will pass. How much, no one knows. Instead of being haggled over by the two clubs, a "buy-out" price will probably be pre-written into all players' contracts (as already happens in Spain). That system could spread.

• But if club and player fall out? For players aged 24-28, the first three years (two for older players) of a contract, if it runs that long, will be "protected": no like-it-or-not sale by the club, no walk-out by the player. Any breach will earn a "sporting" sanction; ie, one under UEFA's or FIFA's rules, not just the civil remedies available now. In practice, this means suspension from league play; for how long is still in dispute—maybe till the end of the next-but-one transfer window.

• For players aged 18-23, there will be special rules: a fee based not on the player's skills but "compensation" for the (often minor) club or clubs that trained him. And not only him, but others who never make the grade. A minor club may spend, say, $20,000 apiece training ten youths for each one that succeeds. So signing him calls for $200,000 in compensation, suggest UEFA and FIFA. Too much, the EU thinks, and the detail here is devilish. It could delay the whole deal, and even then disputes will arise.

• In all cases, independent arbitration will be available. And, crucially, for a transitional period existing contracts will not be affected.

So almost all is settled. Yet there's a doubt. Even with no last-minute upset, what happens after the final whistle? The international players' union is no great force in football, but it is not happy. Nor does a deal with the EU commission make EU law. A crowd riot—say, of players challenging their existing contracts—cannot be ruled out.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

France

No hero he

Mar 1st 2001 | PARIS
From The Economist print edition

PERSONAL funk—or political common sense? Last week, farmers at the Paris agricultural fair pelted France's prime minister, Lionel Jospin, with eggs. He at once cancelled a trip to the rural east that had been intended to support his environment minister, Dominique Voynet, who is the Greens' candidate to be mayor of Dole, and then one to aid a fellow Socialist in Saint-Etienne, in rural central France. Next, on February 28th, his government, skirting the European Union's competition rules, announced a dollop of compensation for farmers hit by Europe's mad-cow crisis. In sum, Mr Jospin is not going to inflame the anger of already angry country folk and spoil the left's chances in the municipal elections that start on March 11th—nor his own chance of unseating Jacques Chirac in next year's presidential election: nothing looks less presidential than being the target of abusive hecklers.

To cynics it is all part of a pattern. Faced with a challenge, at least of the kind that attracts headlines and television cameras, Mr Jospin's instinct is to retreat. Last year France's fishermen, teachers, civil servants and lorry-drivers took direct action, in street demonstrations, blockades or riots, to express their grievances. The government swiftly backed down to all of them.

Need Mr Jospin give way? After almost four years of voter-enforced cohabitation with the conservative Mr Chirac, the prime minister still does well in the opinion polls. His coalition government is relatively untouched by scandal. He has no immediate challenger on the left, and the economy is in fine fettle. A poll published by *Paris Match* on March 1st gave 52% of decided voters to Mr Jospin and 48% to Mr Chirac.

That may show that Mr Jospin's caution is, indeed, the better part of valour. After all, he is in power because his conservative predecessor, Alain Juppé, was too brave for his own good. Mr Juppé set out, with varying success, to reform the civil service and the social-security system—and was rewarded with three weeks of widespread strikes at the end of 1995 and defeat for the right in the general election of 1997.

Yet not long ago Mr Jospin too talked of reform. In January last year he affirmed that one reason for France's renewed confidence was that "French society has rediscovered the path of reform." He listed some of the destinations he had in mind, such as the justice system, pensions and direct taxation.

But that was then, before aggrieved voters, from magistrates to tax collectors, took to the streets. Granted, some progress was made. Elisabeth Guigou, the justice minister of the day, managed to push through a law to strengthen the presumption of innocence. Tinkering with tax rates and social charges has helped reduce unemployment (though, for all the impressive economic figures, it remains slightly above the EU average). But when Christian Sautter, the finance minister, and Claude Allègre, in charge of education, took the prime minister at his word and tried to streamline their departments, they were summarily sacked, lest popular protest got out of hand.

Come forward to this January, and Mr Jospin's new-year wishes have been modified. The accent now is on "social progress" and proposed reforms are aimed at specific groups—old people living alone, say—rather than the system as a whole.

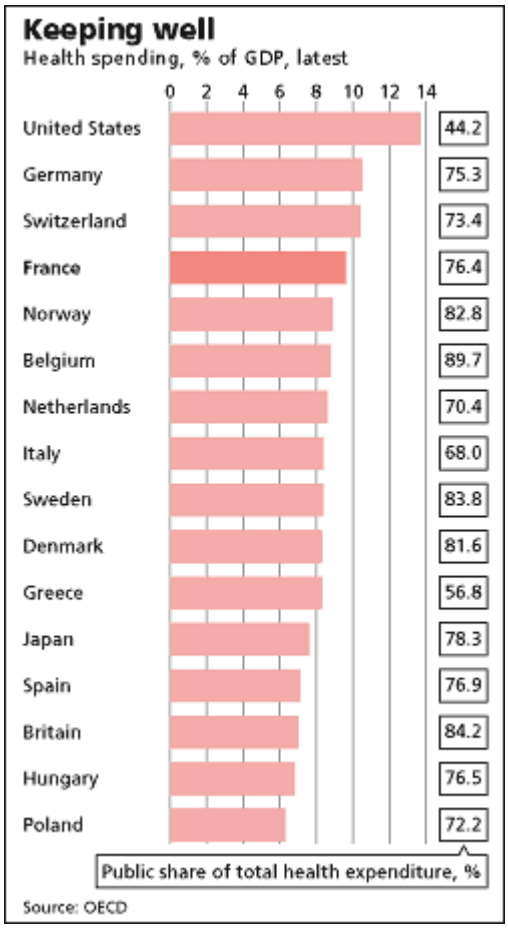
So what? say the realists. Incremental progress is better than none, and Mr Jospin's increments add up to an impressive total: job-creation at a record rate; the fastest growth among the EU's main economies; low inflation. Meanwhile, the reduction of the working week from 39 hours to 35 may have alarmed the bosses, but has not hurt their profits—and has delighted most voters.

The trouble is that small steps will take France only so far. At some point, Mr Jospin and his fellow politicians will have to take big ones. Some will be political. One example is France's role in an evolving EU. Mr Jospin has deliberately left this to Mr Chirac. It will become an unavoidable issue when the EU convenes a "once and for all" inter-governmental conference on its future in 2004. Another example,

broached with unaccustomed courage by Mr Jospin last year, may be the constitutional future of Corsica.

The trickiest issues will be those that touch voters directly. France's enviable systems of pensions, health care and education carry the seeds of their own deterioration. It is demographically clear that maintaining the present pension system will eventually mean either higher taxes, more years at work or lower benefits. Yet Mr Jospin, sticking to left-wing tradition, last year ruled out the "Anglo-Saxon" alternative of private pension funds. It is obvious that France, which already devotes almost a tenth of GDP to health, needs to restrain its spending on medicines (where it comes second in pill-popping only to Japan, a country more than a third richer). It is equally clear that in education, though spending per pupil has risen steadily, the curriculum and its teachers have remained trapped by tradition and violence in schools has grown.

In which case, for the sake of the next generation, the voters had better hope that as president Mr Jospin, especially if he had a left-wing majority in parliament, would be braver than as prime minister.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Neil Kinnock, Europe's Anglo-Saxon reformer

Mar 1st 2001
From The Economist print edition

FATE has dealt many ironies to Neil Kinnock. He once campaigned against Britain joining the European Union but is now the top Briton in the European Commission, the policymaking nerve-centre of the EU. He made his political reputation through his eloquence and passion, but his chief responsibility now lies in the desiccated, jargon-filled world of management reform. And his political nemesis was Margaret Thatcher, yet he now stands accused of trying to "Thatcherise" the EU.

This week the second slab of the commission's "Kinnock reforms" was revealed. In the first part Mr Kinnock attempted to tighten financial control at the commission. In the second, the intrepid Utopian is trying to introduce alien concepts, such as promotion on merit, to the deeply suspicious trade unions at HQ Europe. Last week the unions greeted the announcement of his plans with angry demonstrations and the threat of strikes.

The internal workings of the commission, and Mr Kinnock's attempts to change them, would be of little interest to anyone outside the Brussels bureaucracy, were it not for two considerations. One is that the drive for reform sprang directly from the deepest crisis of legitimacy the commission has ever experienced: the forced resignations of its entire leadership (Mr Kinnock included) in 1999, amid accusations of corruption and mismanagement. So the job of cleaning up the commission is now closely tied to that of rescuing the reputation of the "European project" as a whole. The second consideration is that Mr Kinnock's reforms have become the centre of an argument about the very nature of the commission, which has historically been one of the motors of European integration.

The commission is a strange beast. Britons instinctively think of it as a civil service, for it is staffed by unelected officials. But from the outset it was designed to be much more than a mere servant to elected politicians. It is the guardian and enforcer of the treaties affirming Europe's "ever closer union", and it can take governments to court. Even more important, it has the "sole right to propose" legislation. Governments can put an item on the EU agenda, but it is up to the commission to work out how to turn it into law. Moreover, the commission is proud of having political views of its own. Later this year it will publish its thoughts on Europe's constitutional debate.

To its aficionados, the commission is the only real guardian of a truly "European", as opposed to national, interest. Insiders still look back nostalgically to the 1980s and early 1990s when the commission under Jacques Delors, a charismatic Frenchman, pushed integration ahead by boldly championing monetary union. Mr Kinnock, they fear, is bent on neutering the commission by turning it into a mere British-style civil service.

A recent interview with Mr Delors in *Le Monde* neatly expressed true believers' suspicions of Mr Kinnock. "Will Neil Kinnock's much-criticised reforms of the community's administration replace a French administrative culture with an Anglo-Saxon one based on the principle of value-for-money?" asked the influential French newspaper. Perish the thought! Mr Delors, a friend of Mr Kinnock's, made soothing noises. Mr Kinnock is blunter, calling the idea that he is the bearer of Anglo-Saxon values "absolute bloody rubbish". It is not just that, from his red hair to his Welsh accent, Mr Kinnock is a Celt through and through. It is also, he indignantly insists, an insult to southern Europeans to imply that only Nordic types and Britons like administrative efficiency. In any event, he also asserts (disappointingly enough) that he has no mandate and no plans to turn the commission into a more conventional civil service. It will

retain its cherished role as the policy-proposing guardian of the European flame.

The whole argument illustrates the main problem at the heart of Mr Kinnock's reforms. He must convince outsiders that the commission is really changing; yet he must convince the commission's employees that he is "on their side".

For sure, this need to tread carefully has not stopped him making some real changes. He has tightened up the auditing. All commissioners have been made to declare their financial interests. Mr Kinnock is also demanding a European Commission on Standards in Public Life (which is indeed based on a British model) to act as a reference point when ethical issues in European institutions pop up. His latest reforms will try to make the commission's personnel policies less rigid and hierarchical, and so make it easier to pay and promote people on merit, rather than by counting their years in the job.

Sadly, however, Mr Kinnock's need not to infuriate the staff will prevent him from really questioning some of the more indefensibly cushy aspects of life as a Eurocrat, from the expatriate allowances paid even to staff who have lived in Brussels for decades, to heavily subsidised education at a network of elite schools to which Eurobrats have privileged access. Perhaps the most egregious example is the fact that the commission's expatriate staff are exempt from paying Belgium's ferocious taxes, whose top marginal rate is 55%. Instead, they pay a much lighter "community tax", usually at around 16% of income. So most of them actually pocket about twice what most of their civil-service counterparts earn back home.

Mr Kinnock defends all this on the ground that the commission must attract the best and brightest; most of the staff must be multilingual. It is already struggling, he says, to keep top-flight lawyers who can earn much more in private practice. The right comparison, he says, is not with home-based civil servants but with expatriates in other outfits such as NATO or the World Bank. By such standards, according to a consultants' study ordered up by Mr Kinnock, the overall "package" for the commission's staff is about average. Maybe. But it still sticks in the throat that a body so determined to "defend Europe's social model", high taxes and all, does not feel obliged to subject its own employees to the tax burden it recommends for other, less-privileged, citizens of Europe.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Macedonia

Passing clouds?

Mar 1st 2001 | SKOPJE
From The Economist print edition

IF A moderate, pragmatic approach to both politics and economics were the only thing a small Balkan country needed to guarantee success, then all would be set fair for a stable—and in due course prosperous—Macedonia. But this week a small black cloud on the country's horizon grew a little larger. On February 26th, there was a two-hour skirmish in the muddy, snowy village of Tanusevci between Macedonia's security forces and ethnic-Albanian fighters, who call themselves a "liberation army", though it is unclear what they want to liberate. By mid-week, about 20 or 30 of the guerrillas were still holed up in the village, with the Macedonian army and police encamped in their armoured cars nearby. Guns were firing again in Tanusevci on February 28th.

The fighting, which followed separate rocket attacks on a Macedonian police station and a train, came as grim confirmation of a warning issued a few days earlier by the country's leaders, who were playing host to a Balkan summit, that violence could soon spread south from Serbia's Presevo valley. That ethnically mixed strip of land just east of Kosovo is one of several fronts on which "extremist armed Albanian groups"—the catch-all term now used by NATO—have stepped up their activity in recent weeks, posing a mounting challenge to the western soldiers who oversee Kosovo. The alliance's foreign ministers, meeting in Brussels this week, cautiously agreed to give Serbia a freer hand in the Presevo conflict—and sent a trouble-shooting mission to Macedonia.

President Boris Trajkovski of Macedonia can at least take comfort from the fact that relations are improving with his fellow Slavs in Serbia. It helps that both countries now agree that the best way to deal with ethnic-Albanian militancy is a policy of relative restraint. At the summit in Skopje, the Macedonian capital, Mr Trajkovski and Vojislav Kostunica, the Yugoslav president, initialled a long-awaited treaty that defines the border between Macedonia and Serbia. But many Slavs in Skopje fear that extreme-nationalist Kosovars will persuade more Albanian-speakers in Macedonia, who make up a good third of the population, to join a renewed guerrilla campaign for Kosovo's full independence—and for the partition of Macedonia, whose western edge is heavily Albanian.

Macedonia's prime minister, Ljubco Georgievski, who combines a healthy dose of common sense with a penchant for writing poetry, wants NATO to play a bigger role in preserving the republic's security. So far, his recently-shuffled right-of-centre coalition has been better at managing relations between Macedonia's Slavic and Albanian communities than its (ex-communist) socialist predecessors. This year, for example, a new international university will open at Tetovo, the Macedonian town with the highest proportion of ethnic-Albanians, replacing an "unofficial" Albanian campus that had become a focus of violence.

Macedonia's optimists take heart from the fact that, during a decade of blood- letting in neighbouring countries, the two main ethnic groups have co-operated in coalition government; and for now at least, that tradition seems set to survive. After a political shake-up in November, the Democratic Party of Albanians, led by a veteran power-broker, Arben Xhaferi, became the main partner of the governing party, a movement that traces its history to the Slav-nationalist struggles of a century ago but has since become tamer.

Mr Xhaferi's lot got several top jobs—including that of deputy prime minister, which went to Bedredin Ibrahimi, his possible heir-apparent. Despite this week's violence, the party seemed keen to stay in government and uphold the tradition whereby patronage and political responsibility are shared out amicably. One of its more strident figures, Menduh Thaci, said that, though he hoped the stand-off in

Tanusevci would end peacefully, Macedonia's forces had the right to act if it did not.

Another mildly encouraging sign is that leading politicians in Macedonia's main Albanian party are eschewing the extreme-nationalist dream of a "greater Albania" fashioned out of Kosovo, Albania itself, bits of Macedonia and even of Serbia and Montenegro. On the contrary, says Mr Ibrahimi, Albanians can be spread between several countries, just as German-speakers are split between Germany, Austria and Switzerland.

The trouble with this peaceable suggestion is that Macedonia's humbler people, including its rank-and-file (mostly Slav) policemen, are not always as enlightened in inter-communal matters as their political leaders appear to be. After the rocket attacks, for example, members of the Macedonian police had no hesitation in beating up ethnic-Albanians living in border villages.

With unemployment measured officially at 32%, out-of-work Macedonian Slavs are envious of Albanians who do well out of trade—and smuggling—with Kosovo. But Mr Georgievski's government has managed to curb inflation and to attract about $250m in investment from Greece, now that relations between the governments in Skopje and Athens have improved, as squabbles over names and symbols die down. Macedonia has a budget surplus, boasts Nikola Gruevski, its finance minister; the financial windfall arising from the recent sale of state-owned telecoms enterprises is expected to pay for some job-creating investments. Indeed, an expanding economy may be the only thing that can keep the demon of ethnic violence at bay.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey

Nervous

Mar 1st 2001 | ANKARA
From The Economist print edition

NEARLY two weeks after a public row between its president and prime minister set off Turkey's worst financial crisis in years, the country is still waiting for news of a plan to clear up the mess. The lira has been floated (promptly falling 30%-plus). Heavy cash injections from the central bank have helped to pull down interest rates, and given liquidity to the commercial banks. The stockmarket has perked up a little.

EPA

Well, they're still worth something

But it is unclear, with huge domestic and foreign debt repayments on the horizon, how long the cash-strapped government can prop up the economy. And the credibility of Bulent Ecevit's three-way coalition government has been battered, probably beyond repair. With prices soaring and unemployment rising, civil servants, especially hard hit by the devaluation, have taken to the streets calling on it to resign.

Mr Ecevit's fury was aroused at a meeting of the National Security Council on February 19th, when President Ahmet Necdet Sezer accused him of protecting sleaze-spattered ministers. Out he stormed, declaring there was a crisis, and so creating one. The two men managed to shake hands at a similar meeting on February 26th. But the issue of government corruption remains untackled.

The three ministers most under fire are Husamettin Ozkan, a deputy prime minister, from Mr Ecevit's Democratic Left, who is in charge of debt-ridden state banks; Cumhur Ersumer, the energy minister, from the conservative Motherland party; and Koray Aydin, the public-works minister, from the far-right Nationalist Action Party. The mildly Islamist Virtue party, the main one in opposition, wants a parliamentary investigation into the two last-named but not Mr Ozkan, who is cosy with an influential Islamic fraternity, the Fetullahcis. Businessmen say all three should go. Instead, Mr Ecevit has pushed out two trusted technocrats, the governor of the central bank, Gazi Ercel, and a treasury under-secretary, Selcuk Demiralp. His problem is how to sack ministers without unravelling the coalition, and how to remain in power without sacking any.

Still, Mr Ecevit has one strength: a lack of alternatives to replace him. The generals, who ejected Turkey's first Islamist-led government from office in 1997, would resist a new one led by Virtue—if indeed it could escape a ban from the Constitutional Court on vague charges that, like its predecessor, the Welfare party, it wants to impose religious rule. The True Path party, led by Tansu Ciller, for three corruption-dogged years the country's first woman prime minister, is hardly in better shape. And so divided are the voters that a new election would probably not lead to stronger leadership.

Mr Ecevit's government is the 11th in ten years. It was hailed as Turkey's most stable in recent times. He has got on well enough with his former nationalist enemies. Even torture and other acts of brutality, according to a State Department report released last week, have declined. Turkey's formal acceptance in December 1999 as a candidate for membership of the European Union breathed life into efforts to comply with EU standards.

As to the economy, few thought that the IMF's counter-inflation programme—now defunct—would fail. The annual rate of inflation was 70% at the start of 2000, only 39% as this year opened. In November a new banking watchdog got to work. That, alas, began the trouble: its investigation into ten failed banks prompted a financial wobble, foreign investors pulled out of Turkish markets, share prices sank and interest rates rocketed. It took fresh IMF loans of $7.5 billion to avert a crisis. Now Mr Ecevit says he hopes for a further $25 billion.

He will not get that, but he will at least get something. Turkey's strategic importance—both as a member of NATO and as a pivot between Europe, the Middle East and the oil-rich region on the southern edge of the former Soviet Union—means that neither the EU nor America can afford to let it collapse. But Turkey will need to help itself first. Mr Ecevit has little public support, and the public coffers are worryingly empty.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey

Nervous

Mar 1st 2001 | ANKARA
From The Economist print edition

NEARLY two weeks after a public row between its president and prime minister set off Turkey's worst financial crisis in years, the country is still waiting for news of a plan to clear up the mess. The lira has been floated (promptly falling 30%-plus). Heavy cash injections from the central bank have helped to pull down interest rates, and given liquidity to the commercial banks. The stockmarket has perked up a little.

EPA

Well, they're still worth something

But it is unclear, with huge domestic and foreign debt repayments on the horizon, how long the cash-strapped government can prop up the economy. And the credibility of Bulent Ecevit's three-way coalition government has been battered, probably beyond repair. With prices soaring and unemployment rising, civil servants, especially hard hit by the devaluation, have taken to the streets calling on it to resign.

Mr Ecevit's fury was aroused at a meeting of the National Security Council on February 19th, when President Ahmet Necdet Sezer accused him of protecting sleaze-spattered ministers. Out he stormed, declaring there was a crisis, and so creating one. The two men managed to shake hands at a similar meeting on February 26th. But the issue of government corruption remains untackled.

The three ministers most under fire are Husamettin Ozkan, a deputy prime minister, from Mr Ecevit's Democratic Left, who is in charge of debt-ridden state banks; Cumhur Ersumer, the energy minister, from the conservative Motherland party; and Koray Aydin, the public-works minister, from the far-right Nationalist Action Party. The mildly Islamist Virtue party, the main one in opposition, wants a parliamentary investigation into the two last-named but not Mr Ozkan, who is cosy with an influential Islamic fraternity, the Fetullahcis. Businessmen say all three should go. Instead, Mr Ecevit has pushed out two trusted technocrats, the governor of the central bank, Gazi Ercel, and a treasury under-secretary, Selcuk Demiralp. His problem is how to sack ministers without unravelling the coalition, and how to remain in power without sacking any.

Still, Mr Ecevit has one strength: a lack of alternatives to replace him. The generals, who ejected Turkey's first Islamist-led government from office in 1997, would resist a new one led by Virtue—if indeed it could escape a ban from the Constitutional Court on vague charges that, like its predecessor, the Welfare party, it wants to impose religious rule. The True Path party, led by Tansu Ciller, for three corruption-dogged years the country's first woman prime minister, is hardly in better shape. And so divided are the voters that a new election would probably not lead to stronger leadership.

Mr Ecevit's government is the 11th in ten years. It was hailed as Turkey's most stable in recent times. He has got on well enough with his former nationalist enemies. Even torture and other acts of brutality, according to a State Department report released last week, have declined. Turkey's formal acceptance in December 1999 as a candidate for membership of the European Union breathed life into efforts to comply with EU standards.

As to the economy, few thought that the IMF's counter-inflation programme—now defunct—would fail. The annual rate of inflation was 70% at the start of 2000, only 39% as this year opened. In November a new banking watchdog got to work. That, alas, began the trouble: its investigation into ten failed banks prompted a financial wobble, foreign investors pulled out of Turkish markets, share prices sank and interest rates rocketed. It took fresh IMF loans of $7.5 billion to avert a crisis. Now Mr Ecevit says he hopes for a further $25 billion.

He will not get that, but he will at least get something. Turkey's strategic importance—both as a member of NATO and as a pivot between Europe, the Middle East and the oil-rich region on the southern edge of the former Soviet Union—means that neither the EU nor America can afford to let it collapse. But Turkey will need to help itself first. Mr Ecevit has little public support, and the public coffers are worryingly empty.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Plague island

Mar 1st 2001
From The Economist print edition

The foot-and-mouth epidemic is not just bad luck. It is also a symptom of underinvestment in a depressed industry

PA

Get article background

ALL movement of farm animals has been banned. City-dwellers have been told not to visit the countryside. Dutch customs officials seized food from North Sea ferry passengers. The Irish called off an international rugby match against the Welsh. European governments are burning anything with cloven hooves that has recently arrived from Britain. Thoughts of an April election have evaporated, and there is even talk that May 3rd, the government's preferred date, could be too soon. This week's outbreak of foot-and-mouth disease (FMD) left the country feeling like plague island.

But the sense of calamity that spread through the country during the week may have more to do with the apocalyptic television pictures of burning carcasses than with any real danger. Although FMD inevitably brings bovine spongiform encephalopathy to mind, it is a different order of problem. BSE infects people. FMD does not. The FMD outbreak is not about an unquantifiable risk to human life, but about money; and that, aside from the need to contain the disease, is the main topic of conversation between farmers and politicians this week.

The 1967 outbreak of FMD, in which 440,000 animals were killed, is reckoned to have cost £150m ($400m)—£1.6 billion at today's prices. Only a fifth of that was compensation paid to farmers whose animals were destroyed. The rest was made up of, for instance, income forgone from lost sales and depressed prices.

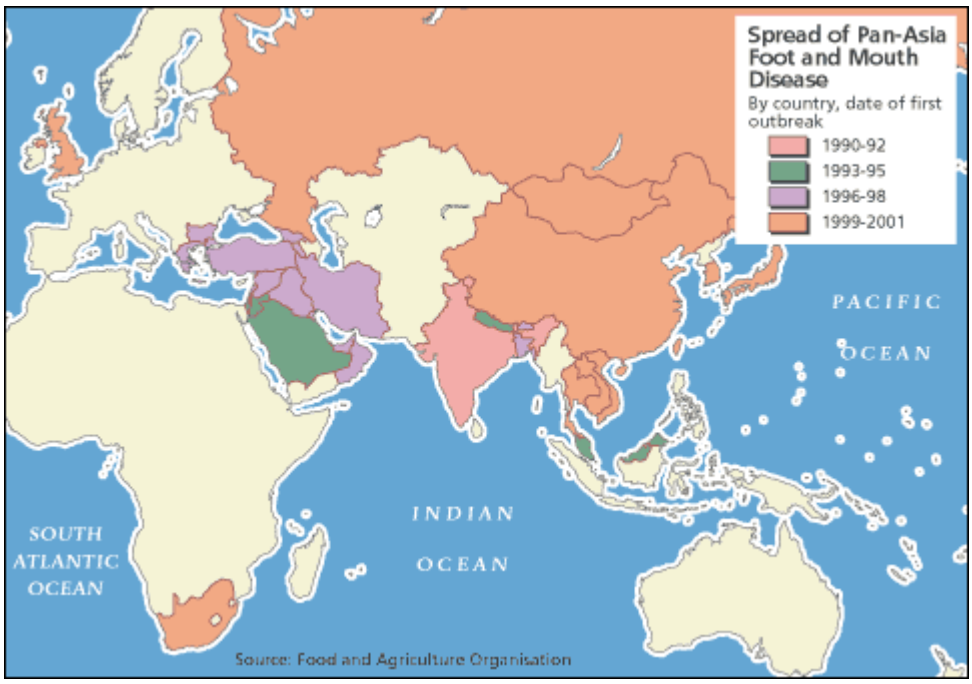
This time, the government is paying less in real terms per head—about £460 ($663) per cow, £70 per pig, and £45 per sheep. But the total costs may be higher. In 1967 the disease was confined to Shropshire, bits of north Wales, and most of north-west England. This time round, cases have been reported all over Britain, implying that the slaughter will be much more widespread.

Sion Roberts, the National Farmers' Union's chief economist, reckons that the cost of the epidemic will be about £253m a month. This includes everything from the extra feed costs of keeping animals on farms instead of sending them for slaughter to the costs faced by food-processing firms whose supplies of meat are being interrupted. But it does not include the long-term damage that might be caused by consumers losing confidence in British-produced food.

So far, on top of the direct compensation to those whose animals are slaughtered in the interests of containing the disease, the government has announced that £168m of money already earmarked for helping farmers will be brought forward. But that is not likely to be the end of it.

Why us?

As the source of BSE as well as of this FMD outbreak, Britain appears to be uniquely cursed, or uniquely culpable, depending on how you look at it. But this particular strain of FMD virus has been doing the rounds. It started in northern India in 1990, and then spread to Saudi Arabia, reached Greece in 1996 (see map) and over the past two years has caused nasty outbreaks in South Korea, Japan, Russia and Mongolia—countries which, like Britain, had been free of the disease for decades.



The virus is one of the great free riders of the microbial world. Almost anything which comes in contact with an infected animal—other livestock, feed, bedding, clothing and even contaminated particles blowing on the wind—can transmit the virus. It can also outlive its host, surviving slaughter and processing to make its way from pig to pork pie. Indeed, the last big outbreak of FMD in Britain, almost 35 years ago, was traced back to frozen lamb brought in from Argentina. This time round some speculation points to pig swill made from rubbish taken from school canteens or, more exotically, discarded aeroplane meals.

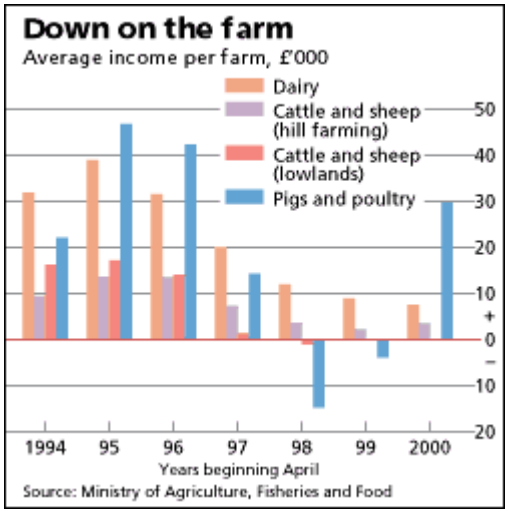
So could this outbreak have been prevented? Some people think so, and blame underinvestment in Britain's state veterinary service. Ten years ago, the agriculture ministry had 43 regional animal health offices, staffed by 303 veterinarians; last year, it ran half as many offices with a fifth fewer vets. The number of government laboratories for disease testing has also fallen. As Joe Brownlie, at the Royal Veterinary College, points out, this understaffing makes it more difficult to provide surveillance for emerging diseases such as FMD.

Farmers' poverty may be part of the problem, too. After some relatively good farming years in the early 1990s, falling world food prices and sterling's strength against the euro have hammered domestic prices and export values, slashing farm incomes in the last four years (see chart). Unusually in a business where falls in one sector tend to be counterbalanced by rises in others, all types of farming have suffered. The government reckons that British farmers' total income fell from £6 billion in 1995 to £1.8 billion in 2000.

Impoverished farmers are unlikely to call out a private vet on a whim, and might hesitate to do so in the case of FMD, which can be confused with other diseases, especially since the disease has not been seen in Britain for decades. There is some suggestion that the first case of FMD this time round may have passed undetected for several weeks on its home farm before eventually being spotted by vets at the abattoir.

Farmers looking to reduce their expenditure also seem to have cut back on insurance. NFU Mutual, the main farming insurer, says that its annual premium for insuring against foot-and-mouth disease was only 50p per animal before this outbreak. But the

proportion of farmers taking out such insurance has halved over 20 years to 10%. For a business which says it has a long-term outlook, this seems a curiously short-term attitude.



Surely, given the potential risk, vaccination should be an option? EU countries used to vaccinate animals, but gave up ten years ago, when they had got rid of the disease. These days, they rely on stamping out occasional outbreaks, and try to protect themselves with strict controls on food and livestock coming in from abroad, including checks on livestock to ensure that they carry no signs of the disease. This poses a problem for those who vaccinate their animals: the vaccine stimulates an animal's immune system to produce antibodies in much the same way as the real virus does, and many tests for FMD cannot distinguish between the viral and vaccine antibodies.

Better vaccines, which allow vets to distinguish immunised from infected animals, would help protect against FMD. But the problem, again, is not so much science as economics. As Johann Vanhemelrijck, head of the European Federation of Animal Health, points out, there is not much incentive to produce high-tech vaccines for livestock. The animal health market is worth roughly 4% of the market in human medicines. And until farming becomes a richer business, burning carcasses will be the main means of getting rid of this disease.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Yorkshire's train crash

Mar 1st 2001
From The Economist print edition

AT 6.12am on February 28th, at least 13 people were killed and around 70 injured in a train crash near Selby in North Yorkshire. It was only five months ago that four people were killed in a rail crash at Hatfield in Hertfordshire. That led to a frenzy of safety improvements and months of delays from which the rail network has only just begun to recover.

The Selby accident looks at first sight like an unforeseeable freak. A Land Rover towing a car on a trailer slipped off a motorway in the dark and wet, down an embankment and on to the railway track. As the driver phoned for help, a GNER passenger train heading south to London struck the vehicles, causing it to collide with an oncoming freight train.

GNER was one of the train operators involved in the Hatfield crash; bizarrely, the very same locomotive was caught up in both. Questions have been raised about the adequacy of the motorway's barrier, and the authorities are examining exactly why the Land Rover left the road. Nevertheless, this peculiar disaster will revive anxiety about train travel as well as extending the series of natural and unnatural disasters that have hit the country.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Auction houses

Bid for the top

Mar 1st 2001
From The Economist print edition

Disaster at Sotheby's and Christie's is excellent news for Phillips. The laggard in the auction business now looks like a contender for the world's top spot

IN 1796, Harry Phillips, the brightest pupil of James Christie, London's top auctioneer, left his mentor to set up his own auction house. He was a wild success from the start. In 1798 he sold 25 paintings from the estate of Queen Marie Antoinette; in 1813 the pictures of the bankrupt Earl of Kinnaird (including a Rubens, a Titian and a Poussin that are now in the National Gallery); in 1822 the furniture, tapestries and jewellery of Queen Caroline. Phillips knocked down the old masters of the deposed King Stanislaus of Poland in 1827, sold gilt furniture from Buckingham Palace on the orders of King William IV in 1836, and auctioned the studio pictures of Sir Joshua Reynolds and Sir Godfrey Kneller in 1798 and 1822.

Arnault the hammer

After Phillips died in 1840, his business went into decline. For the past 150 years it has limped along behind its smarter competitors, Christie's and Sotheby's. Just recently, though, two good things have happened to it. In 1999 it was bought for £70m ($113m) by Bernard Arnault, boss of the luxury-goods group LVMH; and in 2000, Sotheby's and Christie's had their worst years ever.

There seems no end in sight to Sotheby's and Christie's troubles. Sotheby's former chief executive, Diana Brooks, has pleaded guilty to illegal collusion and may be jailed for up to three years on May 24th unless America's Justice Department charges her boss, Sotheby's owner, Alfred Taubman, before then. By comparison, Christie's has got off lightly. It got an amnesty by confessing to collusion, and escaped the $45m fine the courts imposed on Sotheby's.

But there are more questions still to be answered. In the mid-1990s, directors of both houses, seeing profits soaring and share prices rising thanks to the collusion, bought shares heavily in this period. None has paid back any money, although some of Sotheby's directors have resigned. Mrs Brooks's lawyer, Stephen Kaufman, has promised to raise this matter with the judge in May.

The Internet has added to Sotheby's woes. The auction house planned to spend $25m on its website, but has spent $73m and seen little revenue from the investment. It is due to publish its annual results shortly, and they will not look good. In the nine months to September 2000, Sotheby's reported losses even before heavy special charges to settle the court cases. Christie's, privately owned by François Pinault, another French tycoon, will say nothing about profit or loss.

But looking ahead, the two houses' biggest problem will be regaining their markets. Some of their customers who paid too much because of the rigged commissions are getting their money back—on February 19th a New York court ordered Sotheby's to refund $286m and Christie's to refund $256m to sellers—but the two houses' reputations have been soiled.

Some old customers are turning to art dealers. Normally, the auction houses get the cream of the business. But Simon Dickinson's gallery in St James's is currently hung like a museum, with major works from Fra Bartolommeo to Canaletto, Gainsborough, Stubbs, Turner and Constable which have chosen to avoid a sale at auction. Richard Green's walls in Mayfair are also lined with top-rank pictures. Both dealers believe their present good fortune is at least partly the result of Sotheby's and Christie's distress.

But the biggest coup of this year is at Phillips. It has bagged the most important sale so far announced for 2001—seven Cezannes and Van Goghs, worth an estimated $80m, owned by Heinz Berggruen, the grand old man of European art dealing. It has also won four works by Renoir, Monet, Matisse and Modigliani estimated at $40m.

To take further advantage of his opportunity, Mr Arnault has been pillaging Sotheby's and Christie's ruthlessly. In January, he brought in Simon de Pury, the respected former chairman of Sotheby's Europe, as chairman of Phillips. He has bought out Sotheby's New York jewellery experts *en bloc*, taken half its French furniture team and is seeking to seduce to Phillips the impressionist, modern picture and contemporary art expertise of Sotheby's and Christie's in London, with all the multi-million-dollar business and contacts they can bring.

Mr Arnault has also tried—but so far failed—to buy out Alfred Taubman's controlling stake in Sotheby's. Still, the way things are going, he may end up owning the world's biggest auction house anyway.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mind their language

Mar 1st 2001
From The Economist print edition

YOU can tell a lot about a chap by the words he uses. New Labour's instinct to avoid confrontation—find a Third Way, bring them into the big tent, include the excluded—comes out in its language, laden as it is with euphemisms and fudges. The Tories, meanwhile, are busy conjuring ever more periphrastic ways of admitting that many of their policies have been ditched. And Charles Kennedy, the Liberal Democrat leader, is honing the vocabulary with which he will convince voters that his party is different from Labour, without being scary.

With an election imminent, the parties have become ever more desperate to avoid embarrassing issues, and their language has become still harder to decipher. So we are offering readers a special translation service to help with the impending flood of Blairspeak, Hagueisms and Lib Demagoguery:

Blairspeak	Real meaning
Forces of conservatism	Opponents
Faith-based organisations	Churches
Civil society	People
Social exclusion	Poor people
Choosing by aptitude	Selecting by ability
Lifelong learning	Reading
Investment	Spending
Ten-year plan	Apology for failure
Psychologically flawed	Completely bonkers (re: Gordon Brown)
Detached	Completely bonkers (re: Peter Mandelson)
Froth	Anything embarrassing
Real issues	Everything else

Tory contortions	Real meaning
Guarantee	Reckless promise
Update (re: economic policy)	Abandon
Consult (re: drugs policy)	Abandon
Common sense	Our policies
Save (as in "the pound")	Keep for a few years
No plans (re: Hague's leadership rivals)	Biding my time
The British people	The *Daily Mail*
Lib Demagoguery	**Real meaning**
Social justice	Tax rises
Being honest with voters	Tax rises
Consensus politics	Coalition
Fair votes	More seats for us

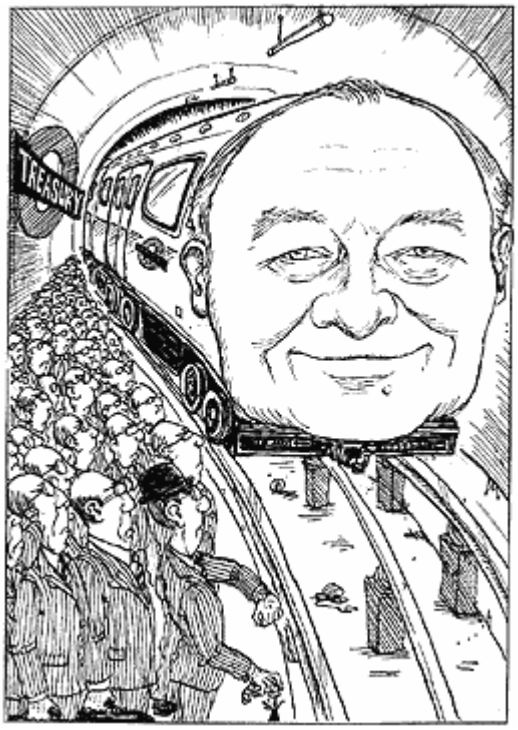
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

See you in court

Mar 1st 2001
From The Economist print edition

Get article background



IT IS no surprise, but now it's official. Ken Livingstone, the politician formerly known as "red", has become a fat cat. London's first elected mayor still dresses like a corner tobacconist. He still makes a point of commuting alongside his voters and fellow-sufferers on London's decrepit Tube. But by the standards of British politicians, he is now quite rich. Although he cannot draw his full mayor's salary while sitting as an MP, the two jobs still give him £105,000 ($151,000). According to the Commons' latest register of members' interests, he is probably making nearly as much through journalism and public speaking—to say nothing of office allowances of £50,000. Quite a few Tory MPs probably earn more, but on the Labour benches, a quarter of a million pounds or so amounts to a handsome squeeze.

So what? Mr Livingstone is worth every penny. He is independent: so much so that his party expelled him when he stood and became mayor anyway after it finagled him out of becoming its official candidate. He is entertaining: his freelance income testifies to a quick wit as well as the celebrity to which his status as mayor and rebel entitle him. He has also, so far, been pretty responsible: newspapers poised to pounce on a slew of "loony" policies from the man who once draped County Hall in red have had to make do with merely quirky ones, such as purging Trafalgar Square of pigeons and offering gay couples a way to register their "marriages". London's businessmen say they love him. He has not, as Tony Blair once feared, used his new job to launch a full-frontal Old Labour attack on the prime minister's New Labour Party.

Then again, Mr Livingstone has never been one to go full-frontal when he can strike more lethally from the flank. He has now done so. This week, London's new government prepared to take the government that created it to court.

The issue is the Tube. Mr Livingstone homed in from the start on a singular weakness in the government's plan for London: its insistence on using a so-called public-private partnership (PPP) to raise the money needed to revive the Tube. This plan would transfer track, signals and stations to three privately owned consortia on 30-year contracts, while leaving the operation of trains to the publicly owned London Underground. As candidate, Mr Livingstone, pointing to the disastrous experience of Railtrack, said this over-complicated "partial privatisation" would compromise safety. As mayor he made the inspired decision to appoint as his transport commissioner a "ruthless, brutal and cunning" fat cat of his own. This was Robert Kiley, a former CIA officer who gained a reputation as hammer of the trade unions when he ran New York's Metropolitan Transport Authority. Mr Livingstone said he needed Mr Kiley's sort of muscle if he was to tame the private firms that would get the contracts to modernise the Tube. On the face of it, a can-do American manager who has moved effortlessly between the public and private sectors has just the sort of New-Labourish qualities of which Mr Blair ought to approve. So far, however, Mr Livingstone has deployed him mainly as a formidable weapon against the prime minister.

Mr Kiley says the PPP IS "fatally flawed" because even though the public would formally own the Tube, real control would be parcelled out to three private-sector infrastructure companies. London Underground would control the Tube's staff, but it would be up to the three "infracos", once their contracts are awarded, to decide how and when they invested in the infrastructure. If the PPP is to work, he says, London Underground needs "unified management control"—something tantamount to owning a

controlling share in the infracos. The government's officials reply, reasonably, that this is well-nigh impossible, given that the whole point of the PPP is to protect the taxpayer by shifting the financial risks to private firms, which are bound in their turn to demand the final say over how and when they spend their money. To which Mr Kiley asks, also reasonably, why then the Treasury liked the PPP in the first place.

This argument has been rumbling around in diminishing circles since December, when Mr Kiley began trying to explain the error of the government's ways to John Prescott, the deputy prime minister. Along the way, the hard man from New York has made Mr Blair's supposedly "joined-up" government look like a train steered by the Marx brothers. In February Mr Prescott sounded close to agreeing with Mr Kiley, only—in Mr Kiley's version—to be overruled by Gordon Brown, the chancellor. This week the prime minister called Mr Brown and Mr Prescott together in the hope of imposing order. The upshot was a new offer to Mr Kiley: no controlling share in the infracos but more power to influence their decisions. On March 1st, the response of London's transport authority was to empower Mr Kiley to mount a legal challenge.

What now? Commuters wait on crowded platforms for trains that never come. Lawyers' ears perk up at the tinkle of distant cash registers. Mr Blair's great experiment could not have ended more wretchedly. Indeed, his blueprint for London was always a compromise too clever for its own good. He gave Londoners a mayor but wanted his own man for the job. When he got Mr Livingstone, he could at least tell himself that the mayor's powers had been kept deliberately weak. The trouble is that Mr Livingstone is too shrewd to take responsibility for the Tube without also taking the power he needs to run it properly. And if he cannot get that, he will use the courts to show voters that devolution was a pretext for the government to pass down responsibility without power. So this busy week found the top members of a government that made a meal of its willingness to devolve power poring irritably over the details of a municipal contract, hounded by the employee of a man they kicked out of their party for insubordination. They would ask him back, but he's having too much fun as a fat cat.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Crime

Straw man

Mar 1st 2001
From The Economist print edition

The home secretary is more liberal than he sounds

JACK STRAW, the home secretary, is used to being attacked from the left. But this week, as he launched the government's ten-year plan to combat crime, he had a novel experience. He was lambasted as right-wing not only by the Bar Council, one of the most conservative bodies in the realm, but also by Kenneth Clarke, a former Tory home secretary.

The Bar Council, provoked by a broadside from Mr Straw aimed at money-grubbing criminal lawyers, denounced him as "a dangerous reactionary". Mr Clarke expressed astonishment at just how far to the right Mr Straw appears to have swung. "I find myself sitting there in complete disbelief when I hear Jack," he told a recent interviewer.

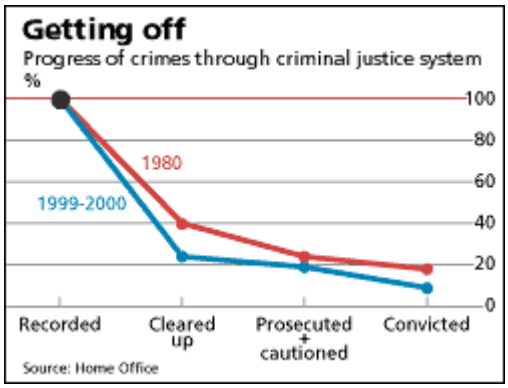
Not that any of this will worry Mr Straw. Rather the opposite. The home secretary's problem is that he has to live with a prime minister constantly complaining that Labour is seen as soft on crime and asylum. His right-wing reputation helps protect him not just from opposition attacks but also from his boss.

With an election approaching, Mr Straw's right-wing rhetoric has increased in tandem with his vulnerability. Law and order is almost the only policy area in which the government does not have a big lead in the opinion polls. Figures published last week showing that Britain's crime rate is the highest in the developed world apart from Australia have come at a bad time.

In a leaked memo, Justin Russell, the home secretary's chief policy adviser, pointed out that the target announced this week in the ten-year crime plan to solve an additional 100,000 crimes by 2004 "doesn't look very impressive. It exposes how poor performance is at the moment and draws attention to the fact that clear-up rates haven't improved since 1997."

The steep decline in clear-up rates shows just how badly the criminal justice system is working. Since 1980, the percentage of those convicted for crimes recorded by the police has dropped by half (see chart). In some areas, the chance of being caught and convicted for a crime such as robbery is remote. In the London borough of Lambeth, for example, 6% of recorded robberies and 8% of recorded burglaries were cleared up last year. Of the small proportion of crimes cleared up, an even smaller number get to court, and a tiny proportion end up with a conviction. What is more, most crime is not reported to the police, so the real success rate is even lower.

In order to improve this dismal record, Mr Straw plans to recruit 700 new staff for the Crown Prosecution Service and an extra 9,000 police officers. He wants police to co-operate more closely with private security companies. The national DNA database is to be tripled from 1m to 3m offenders. More controversially, Mr Straw proposes that there should be greater pre-trial disclosure of defence evidence and that defendants' previous convictions should be disclosed to the jury in cases in which, for example, the defendant puts his or her character at issue. The last suggestion has dismayed civil-liberties groups. They see it as yet another example of justice being perverted in an attempt to secure more convictions.



These are the measures which caught the headlines this week. That is just what Mr Straw would want. Much less attention has been paid to the "Custody Plus" plans to cut the length of short-term prison sentences in return for increased supervision on release. The government also aims to double the number of prisoners getting jobs on their release by 2004; and, for the first time, it is spending real money on education for illiterate and innumerate prisoners. Drug addicts commit more than a third of all

property crimes. The government plans to set up specialist drug courts—which seem to have worked in America—to deal with them. Their sentences will be rehabilitation programmes, not prison. All good liberal stuff, but don't breathe a word.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Talent spotting

Mar 1st 2001
From The Economist print edition

MEASURING academic performance, and allocating university places, can never be done with absolute fairness. But current British methods could certainly be improved, not least in the way the system treats disadvantaged students. One possible path towards the political and educational ideal of meritocracy—the introduction of standardised, American-style reasoning tests—was explored in research released last week. The findings were mixed.

The Sutton Trust, an educational charity, commissioned a pilot scheme which last year subjected 1,295 pupils in 70 secondary schools to a version of the Scholastic Assessment Test (SAT) taken by American high school students. The test comes in two parts, which are designed to assess verbal and numerical skills. Only one pupil from a low-achieving state school got the 3 'A's at A-level generally demanded by Oxford and Cambridge colleges; but 30 of them (5%) did well enough in their SAT to be considered by America's Ivy League universities.

Since the pupils from those schools who did well in the SATs tended to be different from those who did well in A-levels, if both measures were applied the number of applicants who would be eligible for consideration by Britain's top 13 universities would increase dramatically (see table). So the SAT could help to identify bright pupils from poor backgrounds who might otherwise slip through the university net.

A bigger net

	British pupils achieving: adequate A-level results for a good British university, %	SAT scores above Ivy League threshold for underprivileged students, %	either or both thresholds, %	% increase in pupils eligible for top universities when both thresholds used
Low-attaining state schools	4	5	8	96
High-attaining state schools	15	13	23	53
Independent schools	67	63	81	21

Source: The Sutton Trust

But along with some interesting quirks—such as the fact that Cambridge applicants seem to be much better at SATs than Oxford hopefuls—the research threw up some troubling results. Pupils from independent schools still did overwhelmingly better than those in the state system, as they do in A-levels—so the test is in no way a measure of raw intellectual acumen. And something in the SAT appears not to agree with girls, and with Asian and black pupils, who all performed relatively badly.

These findings reinforce the evidence from America, where the poor scores of blacks and Latinos in SATs periodically lead to calls for them to be scrapped. A substantial American SAT-coaching industry has evolved, as it no doubt would in Britain if the tests were adopted nationally, exacerbating the advantages privileged pupils enjoy. Private tuition probably has less impact on test scores than the coaching industry claims; but any edge helps in the competition to get into the best universities. Critics of the idea also point out that, unlike America, Britain already has a reasonably standardised exam system, which is designed to instil the sort of specialist knowledge that British undergraduate degrees tend to require.

To be fair, the Sutton Trust acknowledges most of these provisos. The researchers say they still need to discover whether the SATs are a good predictor of university performance; after all, the fact that the tests measure something different from A-levels is not in itself evidence that they measure something worthwhile. They claim only that SATs could augment A-levels in college selection processes (as they will soon do in Singapore). Results could be made available to universities before they decide whom to admit.

The argument about the utility of standardised tests is an old one, though the territory has shifted: where the political left once extolled them as a tool of social mobility, it now suspects them of bias. It might seem illogical to address the current system's flaws by adding another flawed element, which needs to be applied selectively to deliver an improvement. But given that Peter Lampl, who founded the

Sutton Trust, advises David Blunkett, the education secretary, on university access, this research could indeed herald a change in policy. Mr Blunkett has himself spoken warmly about SATs in the past.

However, ministers should remember that such mechanisms for spotting bright pupils are needed only because too many of them have been failed by their schools. Ameliorating the effects of poor schooling is no substitute for improving it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Planning

By-passing the law

Mar 1st 2001
From The Economist print edition

The first big court case provoked by the new Human Rights Act could force changes to the planning laws

FROM chicken coops to airport terminals, more than 40,000 planning applications are granted or rejected every year. Initial decisions are made by local authorities, and the environment secretary is the ultimate referee. The system arouses plenty of hostility—one person's cosy conservatory is another person's vulgar monstrosity—but Britain would be a lot dirtier and uglier without tough planning rules. And, aside from complaints of delay and occasional petty graft, the regime works. But this week the House of Lords began hearing a case which could force fundamental reform.

The case arises from a decision by the High Court earlier this year that English planning laws are incompatible with the European Convention on Human Rights (ECHR). Article Six guarantees the right to an independent and impartial tribunal. Lord Justice Tuckey and Mr Justice Harrison, referring to the dual role of the environment secretary as the final arbiter in the planning system, ruled: "He cannot be both policy-maker and decision-maker." That judgment, as Malcolm Grant, professor of land economy at Cambridge University, points out, is "a complete reversal of the post-war settlement when we put our faith in elected politicians and incorruptible civil servants."

The appearance of more than 20 bewigged barristers and as many solicitors, crammed into Parliament's Committee Room No 1 this week, is proof of how much is at stake. The five Law Lords, headed by Lord Slynn, are expected to listen to lawyers arguing all this week but are unlikely to publish their verdict for at least ten weeks.

The Law Lords are being asked to choose between two differing models of government—the traditional British model, in which politicians and civil servants are trusted to exercise their discretion, and a rights-based system (like America's and Canada's) in which the courts decide the public interest. The former, say its supporters, recognises that planning is essentially a political process. Local authorities, whose decisions are subject to appeal, decide planning cases on the basis of guidance issued by ministers. Big or difficult cases are referred to inspectors, but ministers are not bound to follow their decisions. It is the job of politicians, says this camp, to balance conflicting interests; and the question of whether a by-pass should be built around a congested town is necessarily political.

Problems arise, however, when local authorities decide planning cases in which they have a financial stake. The case for a less politicised process is that ministers' quasi-judicial role in planning cases is essentially a fiction. The public interest invariably plays second fiddle to politics. Reform would also open up the planning process to public scrutiny in the small minority of cases that are decided behind closed doors in Whitehall.

If the Law Lords do uphold the High Court's judgment, the government will probably have to introduce emergency legislation to comply with the ECHR. There are two ways it could do this. It could divorce the environment secretary from planning decisions and make the planning inspectorate truly independent. Or, more radically, it could set up an environmental court similar to the Planning Appeals Board in the Republic of Ireland to hear contentious cases.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The budget

Gordon's cash stash

Mar 1st 2001
From The Economist print edition

The chancellor of the exchequer says that his pre-election budget will not be irresponsible. That still leaves him able to give billions away

GORDON BROWN loves nothing better than to present himself as the model of stern budgetary rectitude. But the chancellor of the exchequer also wants Labour to win the election. Fortunately for Mr Brown, he has so much spare cash that he can both stick to the letter of fiscal responsibility and hand out more money just four months after he announced a generous giveaway in the pre-budget report. It is enough to drive the Conservatives to despair.

Addressing Labour's pre-election rally in Glasgow last month, Mr Brown condemned electioneering budgets. He declared that "there will be no return to the irresponsible pre-election giveaways of the past." Instead, his pre-election budget would "lock in the tough fiscal stance" set out in last year's budget and November's pre-budget report. This week, he reaffirmed this commitment in response to a warning from the International Monetary Fund that "it would be prudent to abstain from introducing significant new spending commitments or tax cuts in the March 2001 budget."

Music to the ears of Prudence—except that "the tough fiscal stance" did not prevent Mr Brown from dispensing cash to pensioners and motorists in his November mini-budget. The Treasury estimated that these measures would cost £2.6 billion in the coming financial year. As if by magic, however, the chancellor announced that the government would run a bigger surplus in 2001-02 than forecast in the 2000 budget (see table). This was because revenues were turning out stronger than he had projected last March.

Juggling the numbers

Net surplus*

	1999-2000	2000-2001	2001-2002
Treasury estimates Mar 2000	11.9	6.0	5.0
Treasury estimates Nov 2000	16.4	10.1	6.0
Current City estimates	16.4	18.0	6.2 to 7.0

*Excluding spending of windfall-tax receipts

Sources: HM Treasury; Goldman Sachs; Schroder Salomon Smith Barney

Now the chancellor is poised to repeat this feat. He has already made concessions to motorists worth a further £1.75 billion, which the Treasury did not include in its forecast last November. However, the City believes that he can afford to give away—more accurately, give back—even more and announce a still bigger surplus for 2001-02. Mr Brown could present a package of additional concessions worth £2 billion and announce a surplus marginally higher than the £6 billion the Treasury forecast last November, says Ben Broadbent of Goldman Sachs. Other economists think that Mr Brown can afford to be still more generous. Even with a package of spending increases and tax cuts totalling £4 billion, next financial year's surplus will still come in higher, at £7 billion, estimates Michael Saunders of Schroder Salomon Smith Barney.

The chancellor will aim to satisfy two key constituencies with the cash he hands out. Employer organisations are complaining loudly about the extra taxes of £5 billion a year that business has had to stump up since 1997. Labour will want to present itself in the election campaign as a pro-business party,

so Mr Brown will make some inexpensive concessions to show that he is alive to firms' grievances. He is likely to announce more generous tax relief on share options for employees in smaller, high-risk companies than the proposed £2.5m limit for an individual firm. He will also announce plans for a research and development tax credit for larger companies, although this will require the agreement of the European Commission.

The chancellor's principal priority will be to maximise turnout of Labour's "heartland" voters and to ensure that the party retains the support of electors who switched in 1997. A potpourri of sweet-smelling measures can be expected in order to meet these twin objectives. Mr Brown has already favoured poor pensioners and poor families, but they could still be pleasantly surprised next week. And under the rubric of "targeted" tax cuts, Mr Brown may widen the 10p income-tax band. When the chancellor first introduced this in 1999, it was billed as a measure that targeted low earners. However, a widening of the 10p band from £1,580 to £2,050—at a cost of £1.3 billion—would particularly benefit upper-middle-income households, says the Institute for Fiscal Studies in its "green budget". This is because such low earners typically have partners who are also working, explains Tom Clark of the IFS.

Chancellor or alchemist?

As in the November mini-budget, the potential for further largesse will come from a favourable revision to next year's forecast for the public finances before the cost of the budget itself. The Treasury is likely to announce higher-than-expected receipts and lower-than-expected spending on debt interest and social security. In other words: business as usual. This benign combination now looks set to produce a surplus of £18 billion in the current financial year, 2000-01, higher even than last year's record. Only last November, the Treasury was forecasting a surplus of £10 billion and in March, one of just £6 billion.

On this form, Gordon Brown gives every appearance of turning from chancellor to alchemist. Certainly, his unfortunate deficit-prone Conservative predecessors at the Treasury must wonder where they went wrong. But appearances can flatter to deceive. Essentially, what has happened is that the fiscal relaxation planned for this year will now take place in 2001-02. If the surplus does fall from, say, £18 billion this year to £7 billion next year, that will be a fiscal easing worth about 1% of GDP. And much of this will have come from the combined effects of November's mini-budget and next week's budget.

So far, fortune has smiled on Mr Brown. The economy has grown robustly, revenues have overshot and social-security spending has undershot. But fortune may be less favourable, if the economy turns down in the wake of the American slowdown. Still, if the public finances do start to go wrong, it will be after the election.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Welcome to the old Kuwait

Mar 1st 2001 | KUWAIT CITY
From The Economist print edition

Kuwait celebrated 40 years of independence and ten years of restored freedom this week. It is rich again, but still mired in indecision and state control

Get article background

TEN years on, Kuwait looks much as it did before Iraqi troops sacked its towns and put its oilfields to the torch. The oil is gushing again, finances are rock-solid, and the emirate's 825,000 people—not counting its 1.4m foreign residents—can still cruise along eight-lane highways from palatial villas to fancy shopping malls. Sadly, though, the restoration is so complete that Kuwait is still suffering the same ills it suffered before the 1990 Iraqi invasion: a huge and stifling state sector, a dithering government, restricted rights for women and non-citizens, and tense relations with its belligerent northern neighbour.

One problem Kuwait does not face is poverty: its public and private savings abroad amount to $200,000 for every Kuwaiti citizen. So long as it sits atop a tenth of the world's oil reserves, the country—which is about the size of greater Los Angeles—will never run short of cash. But with the native population growing by 3.5% a year, the state is ever harder pressed to pamper its people in the style they are accustomed to.

This style includes free health and education, generous housing loans for newlyweds, cheap petrol, power and water, subsidised bread and other essential goods, and a job for the asking. Because Kuwaitis are essentially guaranteed jobs by the state, all but 7% of the workforce are civil servants. A Kuwaiti economist reckons that about half these bureaucrats do nothing useful. Unlike communist countries, however—where you pretended to work in exchange for pretending to be paid—Kuwait rewards them handsomely. For the liberation anniversary, for instance, the emir, Sheikh Jaber al-Ahmad al-Sabah, gave all state employees a $350 gift.

To hear Kuwaiti businessmen talk, the effects of this cosseting are as dire as they were in communist Eastern Europe. Obviously, it is hard to lure Kuwaitis to mid-level jobs in private companies, or to motivate them to take risks. Worse yet, with the state dominating perhaps 80% of the economy, there is little room for private investment. "This place should be full of opportunities, but wherever you look, they crowd you out," complains a Kuwaiti banker of the state monopolies that control all utilities and every aspect of the petroleum industry. "You can't even operate a gas station."

The performance of Kuwait's stock exchange, once the region's most active, bears out the complaint. Promises of privatisation pushed share prices to a peak in 1997. But the privatisation programme has stalled ever since, and prices have dropped by half. Two-thirds of Kuwaiti men still hold shares locally, but this could well be for want of other investment outlets in the emirate.

Kuwait's parliament, a 48-year-old institution that remains the boldest in the Arab world (for what that's worth), is currently debating laws to encourage privatisation and foreign investment. Yet people believe that neither the government nor most members of parliament have any real incentive to open up the economy. Given that its constituents are largely bureaucrats, says an economist, parliament tends to behave "like a trade union for civil servants". Moreover, he adds, the parliamentarians all have their noses in the trough.

The government's own desire for reform appears to fluctuate with the price of oil. When it is down, there is talk of reducing the burden on the state. When it is up, as at present, the ruling family—whose members traditionally make up half the cabinet—sit back and dole out largesse.

Oil revenues are not the only thing about the government that fluctuates. Ten cabinets have come and gone since liberation. The vulnerability of ministers is compounded by the absence of decisive leadership, and by the sniping by members of parliament who are both better politicians and more secure in their four-year tenures. Ministers, whether technocrats or minor royals, live in terror of sharp grillings on the floor. One day it is Islamists raging about the alleged indecency of the liberation celebrations, the next it is liberals railing against corruption.

The result is that important decisions tend to get fudged. After two years of thinking about it, successive cabinets have still not decided who should receive a lucrative waste-water tender. The international oil firms that recently bid on a $7 billion, 25-year project to develop the emirate's northern oilfields fear similar delays. Women have yet to secure the right to vote. This is due as much to the government's weakness in pushing the reform, and to politicians' use of the issue to score tactical points, as it is to the strength of the country's religious conservatives.

Partly, the paralysis reflects wrangling within the 5,000-member ruling family. Since 1915, the emirship has alternated between two lines of descent, the Jaber and Salem branches of the al-Sabah family. The current emir, who has reigned since 1977, belongs to the first of these. The crown prince and prime minister for over 20 years, Sheikh Saad al-Abdullah, comes from the Salem branch. Both are popular, but also in their 70s and not in good health.

The latest government shuffle in February appears to have bolstered the power of the emir's brother, Sheikh Sabah al-Ahmad, whose post as foreign minister for the past 40 years has disguised his increasing dominance of policy. Clearly, though, a younger generation of al-Sabahs is also being groomed. Five sheikhs, all in their 30s and 40s, most of them western-educated, are ministers in the current 16-man government.

Kuwaitis do not seem bothered by the question of who will rise to the throne. "It may look inefficient, but this is the way we have done it for 300 years," says a professor. "They build a consensus, and we accept the result because we know Kuwait would not be Kuwait without the al-Sabahs." Besides, there are a few face-saving constitutional checks: when a crown prince is named, he must be confirmed by parliament.

Thanks to Saddam Hussein, loyalty to the emir is not the only thing Kuwaitis are unanimous about. Even the Islamists, who control a third of parliament, stay quiet about Kuwait's American alliance. Though scarcely felt in Kuwait City, 4,500 American soldiers romp in a training ground that takes up the northern half of the country. They will be welcome for years to come. "If you think this is a celebration," says a Kuwaiti as fireworks explode overhead, "you should see what we do when Saddam is dead."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Uganda

Will Museveni win yet again?

Mar 1st 2001 | KAMPALA
From The Economist print edition

The country's long-serving president is challenged by his former doctor

AP

A challenger who can't be demonised

UNTIL recently, nobody had been paying much heed to the result of Uganda's coming presidential election. After all, it seemed to be laid in concrete that Yoweri Museveni, who has ruled the country since 1986, and won the 1996 election with 75% of the vote, would be swept back to power again on March 7th. Although criticism of his rule had grown discernibly, his critics had no credible alternative to rally around.

This confidence was shaken towards the end of last year when Kizza Besigye announced that he was entering the race. His decision electrified the country. Dr Besigye is no ordinary challenger. A native of the president's home region in western Uganda, he fought in the long bush war that brought Mr Museveni to power, acting as his personal physician. A retired colonel, he has served as a minister in Mr Museveni's National Resistance Movement government. More important, he has been the government's chief political ideologue.

His candidature has changed the whole tenor of the election. In 1996, Mr Museveni campaigned as the champion of a "no-party" political system which he claims to be a broad-based, alternative form of democracy but which his opponents say is little more than a one-party state. His opponents united behind Paul Ssemogerere, the leader of the Democratic Party (parties can exist but are severely restricted), who promised a return to multi-party democracy. But Mr Museveni, arguing that political parties were the cause of all Uganda's past woes, simply raised the spectre of former leaders, the terrible Idi Amin and Milton Obote, to demonise his rival.

This time he faces a stiffer challenge. Dr Besigye is campaigning as the would-be reformer of the National Resistance Movement, which allows him to lay claim to the party's successes, but also distance himself from its failures. The successes have been considerable. In his 16 years of rule, Mr Museveni has restored relative security, made his country a favourite of the World Bank and IMF (economic growth has averaged 6.4% a year over the past ten years), and dramatically improved its image abroad.

But now, argues Dr Besigye, Mr Museveni has lost his way. He attacks the president for the corruption of his regime, its nepotism, and its involvement in Congo's war. He also accuses Mr Museveni of becoming ever more autocratic, and of turning the ruling movement into a party, without opening the system up to competition.

Dr Besigye's position has been strengthened by his alliance with Mr Ssemogerere, as well as with a former mayor of Kampala, Nasser Sebegala (an ex-convict whose own presidential ambitions were thwarted by a lack of educational qualifications). Mr Ssemogerere and Mr Sebegala both have support among the Baganda, an ethnic group with considerable political clout. But these alliances are fragile, based on little more than the desire to oust the president.

Mr Museveni has been shocked by his former doctor's challenge to his authority, even calling him a traitor. The treachery no doubt seems doubly grave, since Dr Besigye's wife, an outspoken member of parliament called Winnie Byanyima, was once a close personal friend of the president's. In any event, the tension has sometimes turned violent. Since the campaign started in early January, the police have received reports of over 150 cases, alleging not just intimidation and harassment but also attempted kidnapping and murder. Mr Sebegala has been charged with incitement to violence for reportedly urging supporters to take up machetes against foreigners trying to vote.

Mr Museveni has also been heavy-handed. Senior military officers have campaigned for him in contravention of the law, and he has called out the military police when the ordinary police could have done the job as well. The most notorious example of this came with the arrest of a member of Dr Besigye's campaign team, Rabwoni Okwiri, who was seized by the military police at Entebbe airport as he waited to board an aircraft to northern Uganda.

The reasons for Mr Okwiri's brief arrest remain mysterious. But front-page photographs of the frail member of parliament being carried out of the airport's VIP lounge by soldiers have done nothing for the cause of a president whose main achievement has been to tame the country's once-brutal security forces.

The problems have been compounded by administrative difficulties. The electoral commission admits that the electoral registers, which were belatedly displayed this week with 11.6m names, have about 2m more people on them than there are citizens of voting age. Even so, say election watchdogs, the vote should be sufficiently fair to reflect people's wishes.

It is not entirely clear what these wishes will be. The winner must secure 50% of the vote, or face a second round. If that happens, it could spell trouble for Mr Museveni. At the least it would mean intense haggling with the four minor candidates, who between them are expected to collect 10% of the votes.

The more likely outcome, however, is that Mr Museveni will win in the first round, though with a smaller share of the vote than in 1996. He is still supported by the rural poor, who form the bulk of the population, and he has strong support from women. His lead in opinion polls is convincing. Even so, Dr Besigye's manifesto reflects real concerns among many Ugandans. The question is whether Mr Museveni will attend to them in what must, constitutionally, be his final term. It does not bode well for change that he has already sworn never to invite Dr Besigye to join any government of his.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Israel

The law and the uprising

Mar 1st 2001 | JERUSALEM
From The Economist print edition

What explains Israel's public apathy, and judicial inaction, over its army's "excessive" use of force?

THIS week the American State Department accused Israel of committing "serious human-rights abuses" in combating the Palestinians' *intifada*. In its annual report on global brutality, the department found that Israel's security forces "sometimes used excessive force, in contravention of their own rules of engagement". However, added the official responsible for the report, "We're confident that the democratic institutions in Israel will get that country moving in the right direction."

EPA

An Israeli asks the question that all Arabs are asking

Not all of Israel's own human-rights activists share that confidence. They point to a pervasive apathy that seems to affect much of Israeli society, left as well as right, in the face of the wanton acts of cruelty by soldiers and settlers that sporadically reach the media. During the first *intifada*, from 1987 to 1992, a stream of prosecutions, several involving senior field commanders, spurred public controversy over the legality and morality of the army's actions. Today, after five months of much more intense violence than in the earlier uprising, only half a dozen soldiers are under investigation by the military police for illegal use of firearms.

One of them was filmed, by chance, by a television cameraman in Hebron on new year's day, speaking to a middle-aged Palestinian and then suddenly shooting him. The whole country saw the man, Jaabari Jadallah, lying for long minutes in a spreading pool of blood as the soldiers looked on unmoving. His leg was later amputated.

The army's initial reaction was to justify the soldier's action. Subsequently, the line changed and the chief of staff, Lieut-General Shaul Mofaz, described both the shooting and the failure to give first aid as "very grave". But neither this soldier, nor any other soldier involved in the many alleged excesses, has yet been brought to trial.

Two recent events have triggered a certain amount of criticism. Both concerned the killing of Palestinians by settlers several years ago. In March 1993, Yoram Skolnik of Kiryat Arba, a settlement near Hebron, shot and killed Moussa Abu Sabah, who was lying motionless and tied-up on the ground. Mr Skolnik was convicted of murder and received the mandatory life sentence. This was later commuted by the then-president, Ezer Weizman, to 15 years and later to 11 years. After serving two-thirds of this 11-year term, Mr Skolnik applied for parole. The parole board concurred and leading rabbis and religious politicians wrote letters of support. Last week, after an unsuccessful appeal by human-rights activists to the Supreme Court, Mr Skolnik walked free.

Nahum Korman, who chased, kicked and beat to death a 12-year-old Palestinian boy in November 1996, was sentenced in January to six months of community service. This followed a complex legal process that included the Supreme Court, lower courts and plea-bargaining. Betselem, an Israeli human-rights group, condemned the sentence as giving "a message that Palestinian lives are cheap". It accuses the legal authorities of "an undeclared policy of absolution, compromise and mitigation for Israeli civilians who attack Palestinians."

Concerned Israelis see a connection between the Skolnik and Korman cases and the pall of judicial inaction and public indifference that seems to envelop the current *intifada*. Eyal Gross, a law lecturer and executive member of the Association for Civil Rights in Israel, discerns a clear link "between the Korman sentence and the fatal shootings of hundreds of unarmed Palestinians by soldiers operating under a policy of riot dispersal that permits excessive use of force in incidents where the soldiers' lives are not in

danger." He also argues that the army's policy of "terminating" Palestinian commanders, and the killing of 12 Arab-Israeli citizens last year, reflect "the judicial legitimisation of a norm of contempt for Arab lives."

But the silence and seeming insensitivity of the Israeli mainstream in the face of all this is not merely a case of judicial or even moral flaccidity. Most Israelis feel they are at war. Whereas the previous *intifada* was clearly a rebellion, largely unarmed, by a subjugated population in areas under military occupation, this time the Palestinians are seen as living under their own rule and deploying armed forces who shoot to kill. General Mofaz suggested this week that the Palestinian Authority was becoming a "terrorist entity".

Government lawyers have argued this distinction in civil suits involving Palestinians' claims for compensation for destroyed or sequestered property. They say the army is not engaged in "belligerent occupation" under the 1907 Hague Convention, but rather in "hostilities" against the Palestinian Authority and its paramilitary forces. A piece of casuistry perhaps, but it authentically expresses the mood of the nation.

In one way at least, that mood could perhaps be shifting. Public hearings are now being held by a commission of inquiry into the killing and wounding of Arab-Israelis during protests last October. People are shocked to learn at first hand, from police witnesses and from their victims, how quickly and easily the policemen opened fire, hardly bothering with non-lethal methods of riot control. They are stirred, too, by the quiet sobbing of bereaved mothers and sisters on the public benches, citizens like themselves who suddenly became enemies of their state.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Schrempp's repair job

Mar 1st 2001 | GENEVA AND TOKYO
From The Economist print edition

Fixing DaimlerChrysler means not only melding the two companies but integrating Mitsubishi Motors too

Get article background

JÜRGEN SCHREMPP, the embattled boss of DaimlerChrysler, is touring European and American financial centres to persuade investors that his plan to stem the losses at Chrysler and rescue its three-year-old marriage to Daimler-Benz will work. This week, he reminded analysts at the Geneva Motor Show that he was a restructuring specialist who had already hacked off parts of a sprawling Daimler-Benz in the mid-1990s to turn it back to its Mercedes-Benz cars.

It can hardly be surprising that investors are sceptical. On February 26th DaimlerChrysler, whose net profit last year was almost halved by Chrysler's problems, announced that this year it would make a loss of between *euro*2.2 billion ($2 billion) and *euro*2.6 billion, after taking a *euro*3 billion charge for restructuring costs, with a further *euro*1 billion write-off to come later.

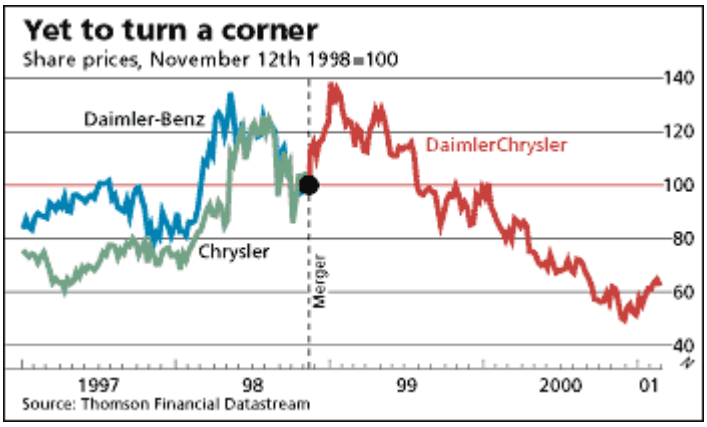
Mr Schrempp has committed himself to an ambitious turnaround plan to get operating profits back to between *euro*8.5 billion and *euro*9.5 billion by 2003. He knows that if he does not deliver, his days are numbered. He has been out to the Middle East to reassure one big shareholder, the investment arm of the Kuwaiti government, and he won public backing from another, Deutsche Bank, this week. In Germany, failing bosses are harder to dislodge than they are in America, but sooner or later they get the heave—witness the ousting, in 1999, of BMW's boss, Bernd Pischetsrieder, after his acquisition of Britain's Rover turned to disaster.

The outlines of Mr Schrempp's plan have emerged over recent weeks: 26,000 jobs to go as Chrysler's capacity is cut in America; cuts of 15% in the cost of bought-in parts and materials; and the renewal of Chrysler's ageing range of minivans, Jeeps and sport-utility vehicles (SUVs). The new elements this week were the financial milestones and a rough outline of how DaimlerChrysler intends to turn round its other sickly offspring, Mitsubishi Motors, of which it owns 34%. It wants to cut the Japanese car maker's output by a fifth, with the loss of 9,500 jobs, to stem losses of ¥23 billion ($207m) in the year to last March. Although this sounds tough by Japanese standards, analysts point out that it is less drastic than the successful measures taken by Renault to sort out Nissan.

Twin challenges

In essence, Mr Schrempp faces two challenges across three continents. First, he must win back investors' confidence: that means selling more cars and losing less money. Second, he must turn three companies—an upmarket German luxury-car maker, an American producer of light trucks and a

struggling Japanese car company—into a coherent global corporation. The holy grail is global engineering, reaping economies of scale, notably in developing new models more quickly and at lower cost.



The first challenge seems to be the more daunting, given the ambitious timetable for Chrysler's revival. There are reasons to doubt it can be done. The American car and light-truck market looks like sliding off its peak of 17.5m units last year to around 16m this year. Moreover, competition in the light-truck segment, where Chrysler reigned supreme in the 1990s, has grown significantly, especially since Japanese companies such as Toyota and Honda started manufacturing locally to get around high import duties. So Chrysler may never again enjoy the fat profit of the late 1990s.

Curbing costs should not be as difficult as selling more cars. Carlos Ghosn, the Renault executive running Nissan since the French company took control in 1999, has brought the Japanese firm back into profit faster than many expected, and ahead of his own ambitious timetable. This underlines a key point about car making: raise plant utilisation above 80% by trimming capacity to demand, and the cash starts to flow in again.

So far as parts are concerned, Chrysler claims that more than half its suppliers have already agreed to a programme of drastic cuts in costs over the next three years. If the German duo now running Chrysler—Dieter Zetsche and Wolfgang Bernhard, who replaced failing local managers—can convince the remaining suppliers to follow suit, they could deliver the first stage of DaimlerChrysler's recovery. But it will not be easy, given how much the big car firms have already squeezed the companies that make their widgets.

The really difficult part is going to be achieving economies of scale by weaving together the three vehicle makers. Today, DaimlerChrysler is worth less than Daimler-Benz alone was worth before the 1998 merger. The integration challenge is made all the more difficult by Daimler's having taken on Mitsubishi before it had digested Chrysler. Now it has to start all over again, repairing its past mistakes while widening its ambitions. Daimler dithered for more than two years, leaving local managers to run Chrysler, before sending in a crack team of its own. Learning from that mistake, it sent Rolf Eckrodt, a senior figure, to run Mitsubishi soon after gaining control.

How best to pool engineering resources? The cars of Mercedes, Chrysler and Mitsubishi are going to have to share some parts that the driver does not see, so as not to tarnish the posh Mercedes brand. This will not be easy. It is no good putting an expensive Mercedes engine in a Chrysler pick-up, as no customer would pay for such refinement.

But different vehicles can still share commodity parts, such as engine blocks, batteries, gearboxes and even some engines, such as diesels. The sharing could go furthest between Mitsubishi and Chrysler, which together have 29 "platforms", the underbodies and basic kits of parts from which cars are made. By halving this number, engineering costs could be cut without trimming the model range.

The longest flirt in history

The irony in the coming together of Mitsubishi and Chrysler under the Mercedes wing is that the pair had been flirting for about 20 years. At one time, they owned small stakes in each other and had considered a full-blown merger when Chrysler was in trouble in the 1980s. They even had a joint venture in Illinois, known as Diamond Star, until Chrysler sold both its share of that and its stake in Mitsubishi.

The Japanese were potential saviours for the Americans then, and helped Chrysler develop small cars. Now their contribution will be equally important, given that Chrysler must learn to make distinctive, high-quality small and medium-sized cars to add to its existing staples of minivans and SUVs. All this will have to be done while Mitsubishi recovers from acute problems over quality control that have resulted in the recall of more than 2m faulty vehicles, with disastrous results for the company's reputation. Mr Eckrodt admits that Mitsubishi is likely to be asked to rescue Chrysler's ailing small car, the Neon, with a replacement based on a Japanese platform.

Can Mr Schrempp and his top managers rise to both challenges simultaneously? The Germans failed to integrate Chrysler, fearful of upsetting American managers and of tainting the Mercedes brand by close association with redneck trucks. Now Daimler has to integrate two struggling companies, and in the process reform itself. The stately product-development process that suffices for a luxury brand has to be speeded up for the more competitive markets that Mercedes, Chrysler and Mitsubishi now find themselves in. Mr Schrempp is a tough boss who clawed his way up from garage mechanic, fixing lorry engines, to the top rank of German business. Now, belatedly, he needs to get to grips with the nuts and bolts of what is, in effect, a three-way merger. It might yet all come right, but not necessarily in time to save his job.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Porsche

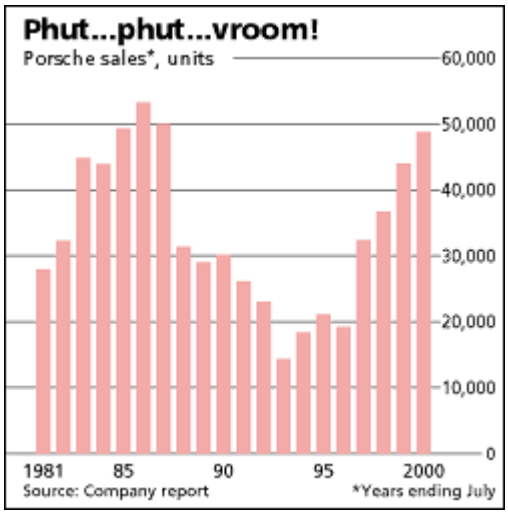
Motoring

Mar 1st 2001 | STUTTGART
From The Economist print edition

WHEN the glitter wore off the 1980s, few companies were more tarnished than Porsche. In the first half of that decade, the Stuttgart firm had raced along, doubling the sales of its fast, expensive sports cars. Then came two nasty skids: the stockmarket crash of 1987 and the sharp global economic slowdown of the early 1990s. In 1992-93, Porsche sold about 14,000 cars, less than 30% of the mid-eighties peak, and lost DM240m ($153m). Absorption by a bigger manufacturer looked likely.

These days, Porsche is not only still independent, but thriving in a world of giant car makers—unlike Stuttgart's local monster, DaimlerChrysler. Sales have roared back (see chart). Wendelin Wiedeking, Porsche's chief executive, expects to shift more than 50,000 cars in the year to July. The firm's sales margin, 12% before tax, is the best in the trade. Its shares fetch around *euro*3,400 ($3,090) apiece, ten times what they did six years ago. New markets are blooming: last month, Porsche opened a showroom in Beijing. What went right?

The short answer is Mr Wiedeking. A Porsche-trained engineer, he took over in 1992, when the company's fortunes were at their worst. He made production leaner and cheaper. The assembly time of a 911, a classic sports car, is 60% less than in 1992, and Stuttgart's single production line is capable of turning out any variation of the company's two basic models. Mr Wiedeking also changed the cars, bringing out a roadster, the Boxster, and a new incarnation of the 911; both have been huge successes. To maintain a high, uniform polish on the brand, he has also centralised marketing and distribution.



Nonetheless, the road ahead is not entirely clear. Two checkpoints lie in the way—one unavoidable, the other of Porsche's own making. The unavoidable one is the world economy, especially America. In the past few years, Porsche enjoyed the coincidence of a long economic boom in the United States, where it sells two-fifths of its cars, and a strong dollar. Now the American economy is slowing sharply, and the dollar has fallen from its peak.

"No doubt about it: if the world economy goes down, we're in trouble too," says Mr Wiedeking. For now, though, demand for Porsches remains high, not least in America. "A lot of people are waiting for their ordered Porsche these days, which is very unusual in the United States," he says.

This time round, if demand should drop, the company could cut production and costs quickly. Last year, 16,800 Boxsters—around one-third of Porsche's total output—were assembled by Valmet, a Finnish company that is paid per car produced. Mr Wiedeking says that he can stop production there with a telephone call. In effect, the fixed costs of the Finnish arrangement are zero: production would take a few weeks to stop, and the cost would be less than DM10m. Some Stuttgart workers are also on temporary contracts, making production there more flexible than at most German car factories.

The second checkpoint is Porsche's expansion of its range. Next year it will start selling the Cayenne, a sport-utility vehicle (SUV), which will be built at a new factory in Leipzig. That promises rich pickings. The SUV market is, for now, the fastest-growing bit of the car industry. Porsche owners usually have two other cars, one of which is an SUV. Mr Wiedeking also expects the SUV market to become—like the sports-car market—segmented between top brands and the rest. So the market is there. Mr Wiedeking reckons that the Cayenne could help boost sales by "a minimum of 50%". In addition, demand for SUVs ought to vary much less than demand for sports cars, giving Porsche some insulation against booms and busts.

Against all this, there is a risk that by making a competitor to such bull-barred brutes as the BMWX5 and the Mercedes M-class, Porsche will sully its image as a maker of sleek sports cars (though assessing that risk is hard when nobody outside the company knows what the Cayenne looks like). Mr Wiedeking is sensitive to the problem. “There is no doubt...[the Cayenne] must be a Porsche,” he says. “We are the only car manufacturer that’s allowed to badge this product ‘Porsche’. We know from our tradition what it means.”

As if to emphasise the point, Mr Wiedeking is planning a “special car”. The Carrera GT, pencilled in for 2003, will go from nought to 100kph (62mph) in less than four seconds and have a top speed of 330kph. But the GT will be built only if enough customers sign contracts for launch orders. The costs of Porsche’s last super-fast car, the 959, were double its sales. The losses were buried in the marketing budget. Never again, says Mr Wiedeking. He seems determined that making money should become as much a part of the Porsche tradition as making fast cars.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bought in the act

Mar 1st 2001 | MOSCOW
From The Economist print edition

THAT much of the business coverage in the Russian press is no more than company hand-outs is clear to anyone reading it. That money changes hands along the way is widely believed but difficult to prove. Now an enterprising public-relations firm, Promaco, has brought the practice of *zakazukhi* (bought articles) into the open, by issuing a fictitious press release and seeing what it cost to have it written up as a story.

The firm invented a new electronics store, Svetofor, supposedly opening in central Moscow. Of the 21 publications tested, one published the press release for free (but without checking). Four asked for more information, and did not run stories. Three said they would run the material as an advertisement. But 13 papers and magazines offered to run it as an article, for fees ranging from around $135 at *Tribuna*, a paper backed by Gazprom, the national gas company, to more than $2,000 in the official government newspaper, *Rossiskaya Gazeta*, which printed the story (as a bona fide news item) on its back page.

Journalists have reacted mostly crossly, rather than shamefacedly, to the revelations. The editor of *Noviye Izvestiya* said it made no difference to readers whether articles were paid for or not. Another paper said it printed the piece in exchange for a colour television that it had donated, sob, to an orphanage. The editors of *Nezavisimaya Gazeta* apologised, but said that honesty was unprofitable, for which public-relations companies, not journalists, were to blame. When a newspaper insists that a puff piece must run as an advertisement, not an article, the paper complained, the PR folk simply take their business to less scrupulous places.

Under Russian law, advertising must be labelled as such. But not necessarily very clearly: it is enough to put the article in a box.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese semiconductors

Lean and clean

Mar 1st 2001 | TATEYAMA
From The Economist print edition

THERE is something peculiarly Japanese about the fabrication plants ("fabs") where semiconductor chips are made. The orderly precision of the manufacturing line, the seamless interaction of humans and machines—even the obsessive attention to personal hygiene in the "clean room" where the circuits are burned on to silicon seems in happy harmony with the Japanese soul. Sure enough, Nippon Foundry's fab in the hills of Tateyama, across the bay from Tokyo, is doing well. Sales have shot up and the firm's president, Yukio Sakamoto, has ambitious plans to expand. For this, however, Nippon Foundry must thank the skills of its new parent, United Microelectronics Corporation (UMC), which happens to be Taiwanese. Amid much local astonishment, UMC's engineers are showing the Japanese a thing or two about the art of making chips.

Until 1998, the Tateyama plant languished as a second-tier and third-rate subsidiary of Nippon Steel, Japan's biggest steel company. But with Japan's chip makers struggling to restructure, UMC guessed the time was right to bring its "foundry" business to Japan. Unlike traditional chip firms, which design and build their own products, foundries specialise in manufacturing other firms' designs. In September 1998, UMC bought a 56% stake in Nippon Steel's subsidiary. A little over a year later, it hired Mr Sakamoto, a former vice-president of Texas Instruments in Japan, to run the show.

The plant Mr Sakamoto has rebuilt is world-class. Land and labour costs are higher in Japan than in Taiwan. Nippon Foundry has had to stay competitive by using more robots, which glide silently along overhead rails and roam around the production bays carrying chip wafers.

Automation cuts labour costs. It also reduces the defects that dirty humans cause by bringing dust into the fab's ultra-clean environment. As a result, 99% of Nippon Foundry's chips are free of defects, compared with the 80% that Nippon Steel could muster. Taiwanese production techniques, meanwhile, keep the plant going with almost no stoppages. Nippon Foundry can make a chip in half the time taken by other Japanese firms. Once his fab is running at full capacity, boasts Mr Sakamoto, he will be churning out chips at 40% of the cost of firms such as Toshiba, Hitachi and NEC.

Mr Sakamoto claims that the key to Nippon Foundry's success is being unJapanese. He is a convert to American management practices, and has brought with him the usual paraphernalia of American-style governance—robust leadership, share options and so on. Japanese firms disappoint him. Because management is overrun with engineers, he says, they have paid scant attention to production costs. Lacking the profits to reinvest in a capital-intensive industry whose product cycle continues to shorten, they have weakened through each recession and are now falling behind Taiwanese and South Korean technology. For future chip production, taunts Mr Sakamoto, "we will be taking over Japanese factories, because they will be restructuring."

Of course, Mr Sakamoto is not just being rude. This is also a sales pitch for his foundry services. So far, the big Japanese chip companies have outsourced only commodity products, such as DRAM computer-memory chips, to foundries, most of them in Taiwan. As Shin Horie of Goldman Sachs points out, however, it might make more sense to keep mass-market DRAM production in-house and outsource more exotic products, such as logic chips. Because these chips are made in smaller numbers, firms by themselves may lack sufficient scale to make them economically. So far, Nippon Foundry has only attracted this sort of upmarket business from the smaller Japanese chip companies, such as Sharp and Sony.

As it happens, however, Mr Sakamoto has a proposition for Japan's semiconductor dinosaurs. He wants to put together a consortium of five companies. Alongside Nippon Foundry, this consortium would invest ¥300 billion ($2.6 billion) in a new, low-cost Japanese fab. By sharing the cost of the initial investment, says Mr Sakamoto, Japanese chip makers can return to the cutting edge of new technology. Nippon Foundry, of course, will handle all the manufacturing, and own half of the equity. So far, says Mr Sakamoto, looking not at all bothered by the fact, the big companies have declined his offer. Once the current chip-industry downturn is through with them—since last summer, the price of 64Mb DRAMs has

more than halved—they may come around.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Leading the cause

Mar 1st 2001
From The Economist print edition

Arthur Andersen has just gone through a messy divorce from Andersen Consulting. Can Joseph Berardino reinvent it as the leading adviser to the world's biggest companies?

SAINT IGNATIUS would be proud. Joseph Berardino, who was educated at the Jesuit Fairfield University in Connecticut, brings a religious fervour to the job of leading Arthur Andersen (AA), the smallest of the "Big Five" global accounting firms, declaring that "it's not a business, it's a cause."

AA has been crying out for forceful leadership. From 1997 until the middle of last year, it was embroiled in a bitter and distracting divorce from its sister company, Andersen Consulting, which was recently rebranded Accenture after an arbitrator awarded AA custody of the Andersen Consulting name. Unfortunately for AA, the arbitrator also awarded it just $1 billion in damages, far short of the nearly $15 billion it was demanding. AA's board ousted Jim Wadia, Mr Berardino's British predecessor—although publicly he resigned, bizarrely claiming the arbitration was a "high-point" in his career.

In contrast to Mr Wadia, who managed through consensus, Mr Berardino is a straight-talking New Yorker. He has ditched AA's 17-member management committee for a five-strong executive team. He is also seen as a better negotiator than Mr Wadia: he was one of the small team from the Big Five—PricewaterhouseCoopers (PwC), Ernst & Young, Deloitte Touche Tohmatsu and KPMG as well as AA—who led talks with America's Securities & Exchange Commission (SEC) over its attempts to ban accountancy firms from offering other services, such as consulting, to audit clients.

The accountants, particularly AA and Deloitte Touche Tohmatsu, fought back aggressively, arguing that a ban would damage the quality of audits. After the Big Five wheeled in the heavy Congressional guns, Arthur Levitt, the SEC's chairman, backed down. Although some of the remaining rules still rankle—such as restrictions on the sort of work that the accountants' affiliate firms can undertake for audit clients—the outcome was a huge victory for the Big Five. Mr Berardino won much of the credit.

His hand may have been stengthened by the fact that he is a dyed-in-the-wool auditor. He joined AA's audit practice 28 years ago, and his last job was to run "assurance"—which is centred on audit—in North America. Within AA, he has championed the cause of the traditionally lower-margin audit business, and (colleagues say) has been sceptical of the firm's expansion into other activities, such as consulting. Although until recently he led AA's Global 1,000 initiative, which touts everything from consulting to legal advice to the world's largest firms, some non-audit colleagues worry that he does not fully understand their business.

AA is already much more integrated globally than the rest of the Big Five. As Mr Berardino points out, "there is one name over the door. We're not an alphabet soup." The cohesiveness of AA's culture has been a source of humour to outsiders, who have labelled its bean counters "Androids". While some rivals are still struggling with a complicated array of national partnerships, and thus different systems for sharing pay, AA partners enjoy a single, and possibly unique, system of remuneration: they receive a list of what each of them has earned in the past year.

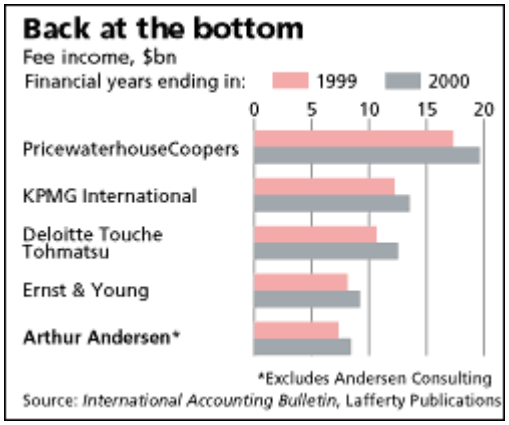
Despite this openness at partner level, Mr Berardino acknowledges the need for a greater sense of "membership" between different levels of the firm. Dotcoms may no longer be the seductive alternative to the decade-long slog to partnership that they were a year ago. Even so, Mr Berardino accepts that "we need to be more flexible in sharing our success." He has asked one of the four other members of the executive committee, Kay Priestly, a New Orleans tax partner, to work out how to do this in practice. Her options will be limited, though. Mr Berardino insists that AA is "happy to be a partnership" and has ruled out floating parts of the business in order to give employees an equity component to their pay. Instead, junior staffers will be "challenged more with work"—although greater responsibility is hardly likely to

mollify employees disgruntled over slender bonuses.

Standards issue

Another “A-plus” issue, in Mr Berardino’s lingo, is global accounting and auditing standards. The Big Five came in for fierce criticism in the wake of the Asian crisis. Western investors claim they thought they were getting western-style accounting standards when they read a Big Five name on the audit. Mr Berardino is dismissive of investors’ folly, but admits that clear and consistent accounting standards are essential if countries are to reduce their cost of capital. Moreover, further reform will be needed, he says, to make “industrial-age” accounts relevant in a world where companies trade at several times book value.

Shorn of Andersen Consulting, AA has now dropped from the top of the Big Five rankings to the bottom (see chart). Mr Berardino wants to grow the business, but insists he will be careful how he does it, stressing that the task is “a marathon, not a sprint”. After all, for many years AA was the maverick outsider that rose to challenge the other big accounting firms by virtue of its higher growth and emphasis on team-building. This is partly due to investment in training—Mr Berardino boasts that each employee receives an average of 135 hours of formal training each year. Partners expect that, on average, the new AA will turn in income growth of 15% a year indefinitely.



Apart from competence, Mr Berardino is promising his fellow partners two other character traits: trustworthiness and an ability to listen. Whether deliberately or not, AA has chosen as its leader a man with a missionary zeal for a profession that even many insiders find rather dull (even if he does take an unAmerican four weeks of holiday a year). He will need to persuade his 77,000 colleagues to feel the same way if AA is to reach the top of the accounting tree again.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Not cleared for take-off

Mar 1st 2001 | NEW YORK
From The Economist print edition

IS HIS last—and biggest—deal in peril? The European Commission's decision on February 27th to open a full-scale antitrust inquiry into GE's $40 billion takeover of Honeywell was not unexpected, but will nonetheless be a big disappointment to Jack Welch, GE's boss.

Mr Welch postponed his retirement to get this deal done. He had scoffed at the idea that the combined might of the two companies in civil aerospace might invite scrutiny from Europe's competition police. The takeover, announced last October, would, he declared, be wrapped up by the end of February. Now, he will be lucky to close it by July. Worse, the conditions that Brussels may attach to the deal could be enough to make him wonder about its value.

The very things that made buying Honeywell seem like a good idea to GE are also keeping Mario Monti, the EU's competition tsar, awake at night. For Mr Welch, "GE is buying a high-tech company with 90% overlap with the things we already do." For Mr Monti, the danger is that GE-Honeywell will be able to use the muscle it gets from a range of related products to squeeze rivals out of the market. It was this theory, known as the "portfolio effect", that Mr Monti invoked to impose divestitures after the Exxon-Mobil and Honeywell-Allied Signal mergers.

What seems to be worrying Mr Monti most is the relationship between GE's aero-engine business, all the other aviation gear that Honeywell brings with it (avionics, small jet engines, undercarriages, auxiliary power units, brakes), and GECAS, GE Capital's powerful aviation-leasing arm. GECAS owns 750 planes and looks after a further 300. It has huge clout in the market and could use it to force plane makers to buy the complete package of GE-Honeywell kit. Nonsense, GE says, GECAS planes have a wide variety of engines and we wouldn't dream of dictating to aircraft makers how they specify their products.

The trouble is that GE's rivals, such as Rolls-Royce and United Technologies, and Honeywell's competitors, which include BAE Systems and Thales, are unwilling to take Mr Welch's assurances of future fair play on trust. Ideally, they would like to see GE and GECAS sever their links. That would be a deal-breaker for Mr Welch and is probably more than Mr Monti will ask for. But the deal is unlikely to be cleared for take-off without some painful disposals. This is not how Mr Welch wanted to bow out.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mobile phones in India

Another kind of net work

Mar 1st 2001 | COCHIN
From The Economist print edition

LIKE God-fearing mariners in the age of sail, the Christian fishermen who work the waters off Cochin, in India's southern state of Kerala, face the prows of their narrow boats to pray. To reach markets on shore they use a newer means of communication: mobile telephones. This looks like a prime example of what BPL, one of two mobile service providers in Kerala, calls "connectivity for the common man".

Proof, then, that new technology can better the lot of India's toilers? In a way, yes: in the four years since BPL and its rival, Escotel, first sniffed opportunity at sea, mobile phones have shaken up Kerala's 28 billion rupee ($600m) fishing industry.

Fish prices fluctuate throughout the day and can vary widely among the 17 landing spots around Cochin. Before mobile phones, deciding which would offer the best price was sheer guesswork. Now fishermen such as P. A. "Joy" Clarence, captain of the *St Xavier*, which drops its nets about 25km from shore, can call ahead. On one recent day, says Captain Clarence, the *St Xavier* turned down an offer of 3,000 rupees for its catch in favour of a 12,000-rupee bid elsewhere.

Mobile phones help in other ways. When the fishing is good, captains call in their friends from less-lucrative grounds, says Captain Clarence, displaying a directory full of his colleagues' mobile-phone numbers. Carrier boats, which take the catch to shore while the mother boat continues fishing, are now summoned only when there is something to deliver, conserving expensive fuel. BPL guesses that 8,000 of Kerala's 50,000 fishing boats carry mobiles, not including those that use pre-paid cards.

India's mobile-phone firms have little choice but to cultivate such rustic markets. Only a few have licences for big cities such as Delhi and Mumbai, where the most obvious customers are; the rest must make do with licences that cover smaller cities and villages. They are finding ingenious ways to encourage rural folk to make calls from mobile phones, which can in some cases cost less than those made on land lines. Escotel subsidises one mobile phone in each of some 450 villages in Uttar Pradesh and Haryana. BPL has 1,500 "mobile call offices" in rural areas. It believes that only through mobile telephony can India reach the government's objective of connecting all of its 600,000 villages by 2002.

The mobile providers' common touch makes for good public relations, especially handy at a time when the mobile-phone industry is battling a decision by the telecoms regulator to let conventional phone companies offer "limited mobility" through wireless technology. Even without such competition, Indian mobile firms say they offer among the lowest call tariffs in the world.

It is not yet the meekest who are being blessed, though. On the sea, it is the big fish who can afford mobile telephones. Joseph Xavier, secretary of the Fishing Boat Owners' Association, says that nearly all the big boats carry mobiles, but that few of the smaller ones do. It is possible that smaller fishermen, who may have been pushed back in the selling queue, are losing out. The fish markets' middlemen—agents, handlers, traders and so on—are certainly not being squeezed out by the technology: they, too, are equipped with mobiles, which they, like the fishermen, use to find out where they can get the best deal.

On land, middlemen are the mobile companies' best customers outside the big cities. They have the most to gain from connectivity with distant markets and they cluster in towns, where most transmission towers are. BPL's main target markets are "communities of interest" around certain commodities. "The definition of the common man is the commerce man," says Samuel Selvakumar, the company's chief of new-business development. The tale of the wireless fisherman is true, but not the whole truth—like most sea stories, it is a bit more romantic than reality.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wine

In vino profitas

Mar 1st 2001 | SAN FRANCISCO
From The Economist print edition

WINE, said Alexandre Dumas, is the intellectual part of the meal. He might have added that for restaurateurs, it is also the lucrative part. Wine accounts for less than a third of a typical restaurant's revenues, but with mark-ups on a bottle as high as 200% it can account for as much as two-thirds of profits. Ronn Wiegand, a wine expert who advises restaurants on how to keep up with the latest trends, says wine drinkers are higher spenders, more generous tippers and better long-term customers. Little wonder, then, that some restaurants deliberately set out to attract a wine-loving crowd.

The tables at Aureole, a restaurant in Las Vegas, are overlooked by a $1.2m glass-and-steel tower storing thousands of wine bottles, into which "wine angels" clad in black climbing gear are hoisted like acrobats to fetch bottles when required. Veritas, a New York eatery, was founded by two wine buffs who realised their lives were too short to drink their vast collections. Their bottles now form the basis of what is perhaps the most impressive wine list on earth. It is so long (it lists 1,400 wines) that diners are advised to peruse the list in advance, via the Internet.

The beauty of wine, says Mr Wiegand, is that with the right decor, a carefully chosen list and well-informed staff, many customers will trade up from a $6 glass to a $20 glass, or from a $30 bottle to a $200 bottle, in an instant. That incremental revenue, he points out, cannot be squeezed out of any other area of running a restaurant. The benefits are not just financial. At one California restaurant, a staff-training programme increased wine sales by around 25% and boosted staff morale enormously.

Maintaining a high-powered wine "programme", however, is no picnic. Inventory control, monitoring sales and just-in-time ordering, as well as the ability to retrieve bottles quickly, are all vital, says Debbie Zachareas, co-owner and "wine director" of Bacar, a restaurant that has just opened in San Francisco's trendy SoMa district. It is also important to find a chef who is happy for food and wine to be promoted as equals. Even so, Mr Wiegand insists that with restaurant-goers around the world becoming more knowledgeable and adventurous, it is not just specialist restaurants that can cash in. Almost any establishment, he says, can boost its profits by improving the selection of wines on offer. In vino profitas, indeed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Electricity markets

Beyond the pool

Mar 1st 2001
From The Economist print edition

Britain pioneered electricity-market deregulation. Now it is about to change its system for trading power—perhaps for the worse

COULD Britain's electricity market be going the way of California's? It may seem an outlandish question, given that Britain led the world in liberalising its power industry a decade ago—and so successfully that it has inspired reformers everywhere. California tried to copy Britain, but mucked things up badly. The state's utilities are bankrupt and consumers are enduring blackouts. The governor is even now organising a bail-out for those utilities, which owe creditors more than $10 billion, by offering to buy their transmission assets at inflated prices.

The key blunder in the California "deregulation" was setting free the wholesale market for power while keeping prices fixed in the retail market. When the price of the power that the utilities were forced to buy unexpectedly soared, they found they could not pass on the extra costs to consumers. This squeeze has been made worse by the lack of "real-time" metering: users receive no price signals when demand peaks—and so have no incentive to conserve.

Some analysts are suggesting that upcoming changes to Britain's electricity regulations will tinker with a successful model in ways that are reminiscent of, albeit not identical to, these mistakes. Generators are currently required to sell their output through a central pool in which distributors bid every half-hour. The system is reliable, but has some unnecessary costs, since the highest bid required to ensure that supply matches demand sets the price for all the power sold in that session. What is more, the government found that some operators were manipulating the system and inflating prices. So it has decided to scrap the pool and move to a market-based system for wholesale power known as the New Electricity Trading Arrangements (NETA). Under the new system, which is due to start on March 27th, generators will be free to contract directly with purchasers.

Will it work? Dieter Helm of Oxford Economic Research Associates, a consultancy, argues that NETA may actually end up stifling competition, just as Britain's electricity business consolidates into fewer integrated firms. (This week, for instance, Innogy, a big generator, bought Yorkshire Power, a distribution firm, for over $2.5 billion.) Mr Helm worries that "NETA may actually reduce the threat of entry", because the lack of a mandatory pool will force new entrants into the wholesale market to buy power direct from incumbents that also happen to be their rivals.

Even if the sceptics are proven wrong and the system does deliver lower prices, it is still likely to increase price volatility in the short term. One reason is that the complex new system may suffer teething pains: already, technical glitches have delayed things once. In recent days, some jittery electricity firms have grumbled that the government should delay the launch by a few months. Officials this week insisted that NETA will start as planned, but traders say a cloud of uncertainty hangs over the market.

Britain will surely survive these bumps in better shape than California, but it may yet run into problems in the longer term. Schroder Salomon Smith Barney (SSSB), an investment bank, warns—with Britain in mind—that "in certain situations, the Californian scenario could be repeated, especially if exacerbated by ill-judged or regulatory intervention."

Defenders of NETA point out that California set wholesale prices free in a market with tight supply, while Britain today has excess capacity. That is true, but as SSSB's Anthony White notes, the British retail market is fragmented and competitive: this means that firms will find it hard to pass on any increase in wholesale costs to customers. This is especially true if, as officials predict, NETA squeezes out the 10% or so of "excess" profits that generators are supposedly pocketing today. Eroding margins will make it unattractive to build plants, and spare capacity will eventually decline—as in California.

In a properly deregulated market, this would not be a problem: wholesale supply crunches would lead to

higher retail prices, which would curb demand and provide incentives for new capacity. There's the rub: retail electricity prices in Britain, as in California, are not free to fluctuate with demand. Except for a few heavy users, real-time metering does not exist. Most residential meters in Britain are read only sporadically, yet the cost of power varies all the time. This suggests a flawed market design.

In a new book, "Competition in Electricity Markets", the International Energy Agency argues that "approaches that do not fully deregulate generation and end-user supply are not sustainable...partial market opening is likely to distort prices." The agency's boffins say price signals are essential, even if only through simple meters that alert customers when demand is at its peak. In parts of Europe, "red light/green light" meters already do the trick.

Does metering really matter this much? A new study by the Electric Power Research Institute (EPRI), a research body linked to America's utilities, analysed the effect sophisticated metering had in tests in the south-eastern United States and in Britain's Midlands. It concluded that real-time pricing applied to just a portion of California's industrial customers could reduce peak demand by about 2.5%. This makes the biggest difference when capacity is tightest, says EPRI's Ahmad Faruqui: when a power shortage looms, a drop in demand of only 2.5% reduces wholesale prices by up to 24%. Britain's regulators would do well to start selling the industry and the public on the notion of real-time metering now, before that theoretical supply crunch becomes reality.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Microsoft trial

Judging the judge

Mar 1st 2001
From The Economist print edition

Get article background

AFTER months of speculation and spin, the tide has turned in Microsoft's favour in its epic antitrust battle with the United States government. The case returned to the courtroom on February 26th. After two days of argument before the appeals court in Washington, DC, the outlook for Microsoft looked better than at any time since last June, when Judge Thomas Penfield Jackson ordered the company to be split in two.

Microsoft won a small victory in September when Judge Jackson's request that the case go directly to the Supreme Court was rejected. In the months since, a number of other events seemed to suggest that things were going further Microsoft's way. The election of George Bush, for example, who has hinted that he is opposed to a break-up, was widely seen as good for Microsoft. Then, last month, Mr Bush appointed Charles James, who has also criticised the break-up plan, as the head of the government's antitrust division. The resolution of several other outstanding lawsuits against the firm was also seen as positive for Microsoft. But none of these suits had any direct or immediate bearing on its antitrust battle.

Far more significant has been the company's continuous criticism of Judge Jackson, in particular for speaking to reporters while the trial was still going on. Although the judge's comments did not appear in print until after he had issued his verdict, Microsoft claimed that his remarks—one of which likened Bill Gates, Microsoft's chairman, to Napoleon—showed him to be biased. The firm's lawyers subsequently agreed not to raise the matter of the judge's conduct during the appeal hearing. But when the schedule for the hearing was issued last month, the court had added extra time to discuss this very question.

This, too, was widely seen as good for Microsoft. On the other hand, the court also extended the time allotted to discuss the question of legal remedies—in other words, what sort of punishment Microsoft should face—which suggested that it regarded the firm as guilty, at least to some extent.

So when the hearing began on February 26th, it could have gone either way. Initially, things looked bad for Microsoft, as the seven appeals-court judges sharply questioned the firm's lawyer, Richard Urowsky. But the government's lawyers were then subjected to even more aggressive questioning, and it soon emerged that several of the judges regard many of Judge Jackson's conclusions as erroneous. In particular, they cast doubt on his finding, crucial to the case, that Microsoft had acted illegally by tying its web browser, Internet Explorer, to its Windows operating system.

On February 27th, Microsoft had an even better day. The court addressed three issues. Was Judge Jackson correct in finding that Microsoft had attempted to monopolise the market for web browsers, at the expense of Netscape, which had pioneered the market? Was Judge Jackson's ruling, splitting Microsoft into two separate companies, the correct remedy for the firm? And finally, did Judge Jackson conduct the trial fairly?

The judges queried the finding that Microsoft had tried to monopolise the browser market. They also seemed unconvinced by the plan to break up the company, pointing out that this would leave the Windows operating-system monopoly in the hands of a single firm. But the judges reserved their harshest criticism for Judge Jackson. Harry Edwards, the appellate court's chief judge, said he was "distressed" by his behaviour. If the case is sent back to a lower court, it seems certain that Judge Jackson will not be allowed to hear it again.

The appeals court's ruling is not expected until April or May. But a break-up of Microsoft now seems to be out of the question. Some legal experts are even suggesting, for the first time, that Microsoft could win outright, and overturn last year's verdict altogether. Failing that, the company might get away with little more than a legal slap on the wrist, in the form of fines, or demands that it alter some of its business practices. Microsoft has proved adept at sidestepping such restraints in the past, which is precisely why Judge Jackson ordered a break-up in the first place. All of which means that the final outcome will be what opponents of the case have called for from the beginning: Microsoft's fate decided, for better or

worse, by the market alone.

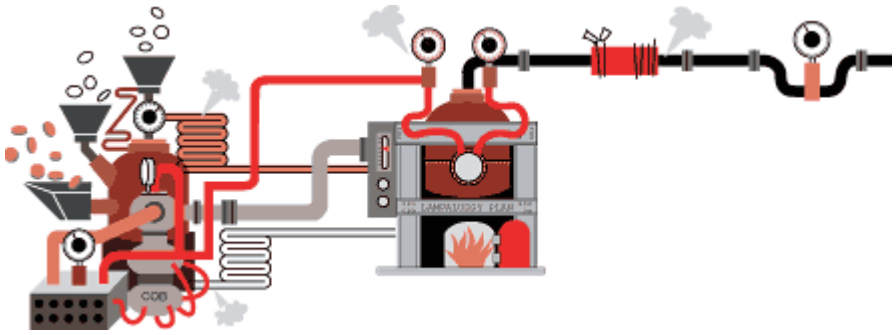
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

EU FINANCIAL REGULATION

A ragbag of reform

Mar 1st 2001 | BRUSSELS
From The Economist print edition

National governments and EU policymakers are reshaping Europe's system of financial regulation. But they cannot agree on which shape will make their markets work best



ACROSS Europe's financial markets lies a colourful patchwork of regulation. In Austria, a government department watches over the markets, a task that the Irish leave to their central bank. The French have two main regulators for their markets while the Germans have three. With many countries still separating the regulation of banks, insurers and securities firms, there are about 40 different authorities currently tying up EU member states with red tape.

These old structures, however, are changing. The British set a brand new example last year when they introduced a single all-powerful regulator, the Financial Services Authority (FSA), to watch over all their financial markets. And in February, an influential EU group of "wise men", headed by Alexandre Lamfalussy, a former chairman of the EMI, forerunner of the European Central Bank, endorsed the British model and recommended a single national regulator for each EU country. That led some to wonder whether what's good for Britain might be good for Europe too. Would the EU benefit from having a single "super-regulator"?

The Lamfalussy group says that a single authority in each member state would bring economies of scale, more streamlined management, greater transparency and clearer accountability. Most EU countries say they are heading towards that goal, though so far only Denmark and Sweden have gone as far as Britain. Belgium, Luxembourg and Finland have merged the supervision of securities and banking, but in seven EU countries a separate institution still regulates the securities markets.

The main motive for reform is clear: a broader constituency for each regulator is expected to reduce the inefficiencies in Europe's fragmented financial markets. This fragmentation diminishes the depth and liquidity of the markets and makes the cost of capital in Europe persistently higher than it is in America. It also makes it more difficult for entrepreneurs to find start-up funds. Per head of population, there is five times as much venture capital available in America as there is in Europe.

America has one national regulator for its securities markets—the Securities and Exchange Commission (SEC). But it has several regulators for other parts of the financial system. The Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the various state banking commissions all keep an eye on banks, while state insurance commissions regulate insurance firms. The regime is a mix of monopoly and fragmentation.

Debate on the reform of financial regulation in America has emerged at irregular intervals, usually after the shock of a financial scandal. Whenever something goes seriously wrong—the stockmarket crash in 1987, the collapse of the notorious Bank of Credit and Commerce International, or the crash of Long-Term Capital Management in 1998—reform of financial regulation is hotly debated. Until now, though, no evidently superior solution for the regulatory conundrum has prevailed. So each country has been left to devise its own system.

American markets have, by and large, pioneered those developments in recent years that have made the regulators' job much tougher—rapid innovation, internationalisation, and the broadening range of businesses in which individual firms take part. But none of these has led to radical reform. The American regulatory system has not changed fundamentally since 1934 when the SEC was set up.

Two heads better than one?

Discussion of regulatory reform in Europe has a shorter history. Most European regulators have not been established for long, and change in financial markets has been slower than in America. The pressure for reform has accelerated with the recent introduction of the single European currency and with technological progress. The euro (in effect, a single financial market for cash) has integrated national bond markets in the euro area, and has begun to do the same for equities. Investment managers now do their research on European bonds and equities by sector, rather than by country. At the same time, changes in technology have replaced many of the old high-decibel trading floors with electronic trading platforms. Supervising such markets is forcing regulators to rethink their traditional methods of regulation.

The British government, eager to preserve the City of London's leading role in financial services, announced a reform of its system of regulation in 1997. For years, the City had policed itself with self-regulatory organisations that covered both wholesale and retail financial services. After a protracted debate about the wisdom of merging all these bodies into one super-supervisor, the British parliament finally passed the unwieldy Financial Services and Markets Bill last year. It is this legislation that established the pioneering FSA.

The idea of a single regulator is now spreading across Europe. Hans Eichel, the German finance minister, wants to merge his country's three regulatory bodies (one each for banks, insurers and securities houses) into one Federal Agency for Financial Market Supervision. However, his plan is unpopular with state governments, always sensitive to incursions into their prerogatives. At the moment, they oversee Germany's eight bourses: the government of Hesse keeps an eye on the Frankfurt stock exchange, for example, while Baden-Württemberg watches over the bourse in Stuttgart.

The French too are talking about merging their regulators. France's main supervisory authority is the Commission des Opérations de Bourse (COB), but it shares responsibility with two other bodies: the Conseil des Marchés Financiers, a self-regulatory organisation that oversees market transactions, and the Commission Bancaire, the watchdog for the banking industry.

The French government is a strong proponent of the so-called "twin heads" model of regulation—having one regulator for prudential supervision and wholesale business (the markets for financial products between professionals), and one for the retail markets, where financial products are sold to consumers. The head of the COB, Michel Prada, says that two separate regulatory bodies are preferable to one for two main reasons. In the first place, they reduce the risk of the retail market regulator being "contaminated" by its wholesale counterpart, and vice versa. And, secondly, they reduce the huge management burden that is imposed on a single regulator. The COB has fewer than 300 staff; the FSA has around 2,000.

The EU's bureaucrats have been pursuing reform for much longer than their national counterparts—and with little to show for it so far. In theory, EU financial markets were supposed to be one single market from the first day of 1993. (Remember the 1992 "single market" programme of directives?) At the time, many of the measures that were required to create a single market in financial services, together with more streamlined regulation, were put in place. Restrictions on capital movements had been largely dismantled, and the European Commission had launched a series of "passport" directives designed to let banks, insurers and stockbrokers offer their services directly across borders without setting up local subsidiaries. All was in place for the single market in financial services to take off.

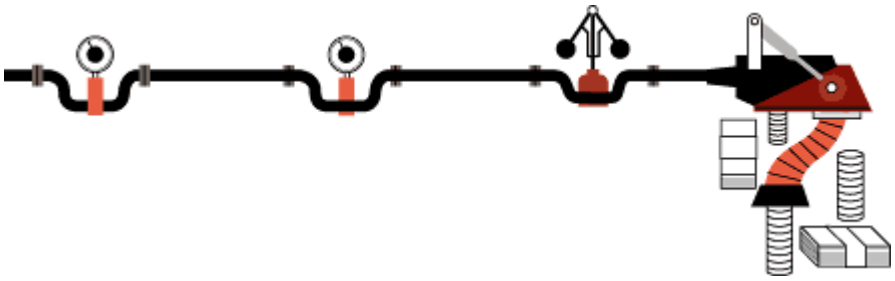
In practice, however, member states delayed the implementation of the directives, or did not implement the bits that they did not like. At first, the commission reacted timidly to their recalcitrance, setting up a feeble Forum of European Securities Commissions (FESCO) in 1997 to promote co-operation among securities regulators. FESCO's work has been inconsequential though, largely because it does not have any official status. It is further handicapped by being obliged to work by consensus, and by being unable to make recommendations that are binding.

In the aftermath of the launch of the euro, Europe's leaders decided to take more robust action to tackle

other financial markets. They endorsed the European Commission's Financial Services Action Plan (FSAP) at their Lisbon summit in March 2000, a blueprint for integrated capital and financial-services markets across the EU. The FSAP recommends 42 measures to streamline the regulation of retail and wholesale financial markets. The latest deadline for their implementation is 2005.

Not content with this deadline, nor with the contents of the plan, the French government decided to try both to tinker with it and to speed it up. In the second half of last year, when France held the presidency of the Council of Ministers, Laurent Fabius, the French finance minister, suggested setting up a small committee to study the possibility of a more radical plan. In it he wanted to include the establishment of a pan-European regulator to be headquartered (not surprisingly) in Paris.

Britain was staunchly opposed to the setting up of such a committee and tried unsuccessfully to block it. To calm Britain's worries, a British treasury official, Sir Nigel Wicks, was made a member of the committee that was eventually formed under Mr Lamfalussy's chairmanship. It produced an interim report last November and a final report in mid-February.



Competing visions

Despite all this activity, neither national governments nor policymakers in Brussels have made up their minds about the best form of financial regulation for Europe. Most EU member states now consider a single supervisor for all financial services to be the best solution within their own domain, although there are those who want to keep regulation of the wholesale market apart from regulation of the retail side.

By the same token, a pan-European regulator would seem to be the most efficient way to put an end to Europe's regulatory ragbag. Yet the idea of competition between different jurisdictions offering their own brand of regulation has its supporters. While the French campaign for a single European regulator, Britain's chancellor of the exchequer, Gordon Brown, is fiercely opposed to the idea. The Germans are also in favour of a pan-European regulator, though they are less keen than the French. Caio Koch-Weser, a state secretary at the German finance ministry, has said that at some stage a pan-European regulator will be on the agenda. By reforming its regulatory set-up, his country is to "foreshadow" that development.

Mr Lamfalussy's group stops short of proposing a single regulator (or even "twin heads") for the whole of the EU—although its recommended creation of a securities committee to speed up the EU's cumbersome legislative procedures has been seen by some as an embryonic SEC. "This is an open-ended process," says Mr Lamfalussy. His committee's report has only proposed measures that it thinks can be implemented in the next few years. Mr Lamfalussy is, he concedes, a federalist—but a pragmatic one.

His group was not asked to come up with a counterproposal to the commission's FSAP. Rather, it was expected to highlight the most urgent measures needed to streamline the regulation of securities markets in the EU. Hence the group's final report focuses on the modernisation of rules for investment and pension funds, on the adoption of international accounting standards, and on a single "passport" for stockmarkets. Mr Lamfalussy wants all these reforms implemented by 2003, although he admits it "will be tricky". Other priorities on the list are less controversial—a single prospectus for issuers; the principle of mutual recognition for wholesale markets; and the modernisation of exchanges' listing requirements.

Ironically, many of the group's recommendations have been under discussion for years, or are in some cases already part of an EU directive. Many of these proposals, however, came out half-baked. The key investment-services directive, for instance, which sets conditions for a single EU-wide licence for investment firms, and which empowers stock exchanges to operate across borders, was watered down and implemented belatedly. Although the directive was approved in 1992 (after three years of tortuous wrangling), many governments waited until 1996 to implement it. In order to get it approved at all, the

commission had to tolerate many ambiguities in the text. For instance, something as basic as the definition of a professional investor is unclear.

Mr Lamfalussy makes much of the damage that has been done by the delays in tackling what he calls "priority" measures. National governments still stick to protectionist investment rules for investment and pension funds, for example. The Italian government requires that pension funds invest a considerable portion of the money that they manage in government bonds. And multinational companies are obliged to run a different pension plan for their employees in each member state of the union.

As a result, the average American investment fund is six times bigger than its European equivalent, and between 1984 and 1998 the average real return on pension funds was 10.5% in America and 6.3% in EU countries that impose strict restrictions. The people who suffer most from Europe's protectionist rules are pensioners themselves. And as more and more of them come to rely on private-sector schemes, their loss will be even greater.

Mr Lamfalussy is also concerned about the damage that is being done by the continuing failure of most EU member countries to introduce rules on disclosure comparable to American standards. This failure means that investors in the EU are not properly protected. For instance, information on the stock options granted to the directors of Lernout & Hauspie, a troubled Belgian company developing speech-recognition technology, could only be found at the SEC's "EDGAR", an electronic register in America that gathers and analyses data on companies. Even the Belgian authorities that are investigating Lernout for allegedly inventing revenues had to turn to the SEC for help. Karel Lannoo at the Centre for European Policy Studies in Brussels is among those in favour of introducing a European EDGAR once the single European prospectus is a reality, and once EU accounting standards are more homogeneous.

Almost stronger than the Lamfalussy committee's desire to give new impetus to proposals for reform that, in many cases, have been discussed for years, is its desire to accelerate decision-making procedures within the EU, and to control more tightly the implementation of directives by member states. At present, the commission makes a legislative proposal to the Council of Ministers and the European Parliament. They then shunt it around in a complex co-decision procedure that takes on average more than two years. The takeover directive has been in the works for 12 years (and has still not been adopted), while the European company statute has been discussed, on and off, for more than 30 years.

Mr Lamfalussy calls for a four-level approach to decision-making and the implementation of financial-market proposals. At the first level, the Council of Ministers, the European Commission and the European Parliament would agree on "framework" legislation and would decide which of the measures to be implemented should be passed to the next level.

At this second level, a newly created "securities committee", made up of representatives of the commission and of member states, would reach agreement within three months on the technicalities of the new legislation. This they would do after consulting market participants and consumers. "The government representatives on the securities committee should be just under the finance minister," says Mr Lamfalussy. Predictably, the idea of such a committee has aroused the wrath of the European Parliament. It worries that the committee will become a means for removing important decisions from democratic accountability.

Levels three and four of the Lamfalussy approach to decision-making involve co-operation among national regulators via a "regulators' committee". Its purpose will be to improve the implementation of EU legislation by the better enforcement of EU rules.

The timetable for the Lamfalussy plan is ambitious. It is to be debated by the European Parliament in mid-March, where it is unlikely to have a comfortable ride, and it will then come before the European Council at its meeting in Stockholm at the end of March. There, the list of priorities in the plan is due to get the community's stamp of approval. The commission is then to begin setting up the securities committee and the regulators' committee in April and May, and by December the two committees should be in operation. All Mr Lamfalussy's recommendations are due to be implemented by 2004, a year earlier than the deadline of the commission's own action plan.

This is ambitious. Even if Mr Lamfalussy's four-level approach is simpler than the Kafkaesque co-decision procedure currently in place, it is still a complicated structure. Moreover, some of the measures on his priority list (such as the move to international accounting standards) are very likely to take more than two years to implement.

The role of the regulator

The debate about financial-market regulation in Europe has moved from considering the merits of self-regulation versus statutory regulation, to whether a single regulator should police all financial services. The Lamfalussy report has done nothing to help resolve this dilemma.

Financial regulation exists for three main reasons. It is there to provide a safety net that will prevent the collapse of one bank, insurer or investment manager triggering the failure of others. It is also there to supervise the integrity of financial institutions and to protect individual consumers from malpractice and fraud. And it is there to act as the watchdog of financial markets, policing insider dealing, malpractice and other offences.

If it is tricky for a single national authority to combine these different objectives of regulation, it is even harder for a supranational regulator. How can a single organisation hope to protect investors, police financial institutions, and watch markets in 15 different jurisdictions? Even if it were desirable to try, some form of common jurisdiction would be essential. On top of everything else, a regulator has to be firm and effective to gain credibility. If the EU's track record in enforcing its directives on financial regulation is anything to go by, a pan-European regulator would be neither.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Piecing China's markets together

Mar 1st 2001 | HONG KONG
From The Economist print edition

If China could merge its various stockmarkets, the result would be one of the world's biggest

IT WAS supposed to be a merely symbolic change, but it caused a stampede. On the morning of February 26th China's middle classes turned out in force to queue at their bank branches. When the doors opened, incivilities occurred. Within a couple of hours, some 2,500 savers in Shanghai alone had opened new accounts to buy something they hitherto could not: Chinese-listed shares denominated in hard currencies. When, two days later, trading in shares resumed after a one-week suspension, the market soared.

The market in question is for so-called "B shares". Until now this was an unglamorous and illiquid category reserved for foreigners. Chinese, in turn, were allowed to invest only in yuan-denominated "A shares" denied to foreigners. That, at any rate, was the theory. In practice, four-fifths of the B shares listed in Shanghai (and denominated in American dollars), along with three-fifths of those in Shenzhen (denominated in Hong Kong dollars), are held by Chinese nationals who have set up illicit overseas accounts. When Beijing allowed its own people to buy B shares this week, it merely legitimised what was already common practice.

The real significance, however, goes to the core of China's economic reforms. Ever since 1978, China has been changing from a planned economy to a market-based one. Stockmarkets barely existed a decade ago. Now, they have taken on a central role in this transformation. The trouble is, the markets are still a mess. Beijing's gesture this week was the first step in a series of moves to sort them out.

In Beijing's version of "socialism with Chinese characteristics", the stockmarket plays two roles. The first, says Andy Xie at Morgan Stanley in Hong Kong, is to facilitate a "massive debt-equity swap" for the Chinese economy. China's domestic saving is enormous: it runs at around 40% of GDP. But these funds have traditionally been allocated in the least efficient way, through the state banking system. Most lending goes to awful state-owned enterprises (SOEs), and at least a quarter of the loans are bad. By channelling savings into the stockmarket, the government hopes that capital will be better allocated. It hopes, among other things, to raise cash to pay pensions and unemployment benefits to the millions laid off from SOEs—and so to avoid social unrest.

The second role is more subtle, but more far-reaching. Jun Ma, an economist at Deutsche Bank in Hong Kong, says that SOEs need the discipline and scrutiny that markets provide if enterprise reform is to work. The privatisation of China's biggest state firms is still taboo. By ensuring that SOEs have minority shareholders, the government hopes to inspire companies to improve their corporate governance, transparency and competitiveness (though see article).

So China's Communists have grown fond of bourses. In the past decade, over 1,000 companies—almost all state-owned—have won A-share listings, with another 1,000 to come this decade. Stockmarket capitalisation has risen from nothing to half of GDP. China's A-share market is now Asia's third-largest, behind Tokyo and Hong Kong.

For foreign investors, this means nothing. China's currency is convertible on the current account (for trade, say) but not on the capital account. The B-share market, with just 1% of A shares' capitalisation, is trivial. Most foreigners invest only in mainland companies that have issued "H shares" listed in Hong Kong (and most of these are dogs), or in state-controlled companies that are incorporated and listed in Hong Kong (so-called "red chips"). Hong Kong's legal system and standards of regulation give investors some reassurance. Mr Ma reckons that "mainland" companies, all told, will reach 35% of Hong Kong's market capitalisation this year.

Yet the fragmentation of China's equity market negates much of its purpose. A company with A, B and H shares today has three wholly different valuations, none with much connection to fundamentals. Until last week, A shares traded at four times the price-earnings ratio of the corresponding B shares in Shenzhen, and three times the ratio in Shanghai. The gap between A and H shares is not much smaller.

Distortions such as these were bound to persist as long as domestic savings remained locked in Chinese-currency shares, and overseas savings remained locked out of them. Moreover, A-share companies have made only a tiny part of their equity available for trading. Vast sums of money have been chasing few shares. Meanwhile, H shares have languished.

For valuations to converge, China has to link its various share classes. Hence the excitement this week. The move was seen as a first step towards eventually integrating A and H shares as well. When this happens, say analysts, China will have the world's fourth largest stockmarket, after America, Japan and Britain.

Complete integration is out of the question until China makes the yuan convertible, and that is years off, if not decades. Even so, progress is possible. Beijing's Communists are studying Taiwan's practice of allowing foreign capital into its market, without full convertibility. To do this, Taiwan makes foreigners apply for licences to buy local currency and shares—and for licences to sell them. In this way Taipei can partially control capital flows, and limit the stakes that foreigners own in local companies. The Taiwanese devised the method as a way to prevent mainland Communists from sabotaging the island economy. China is copying the idea.

In the meantime, China has other ideas for knocking its stockmarket into shape, though the timetable remains uncertain. Regulators say they will delist companies that make losses for three years running, so clearing the market of duds. They also intend to ditch a quota system that determines the order in which companies may list and that favours politically connected SOEs at the expense of private firms. There are also plans to list foreign-owned joint ventures and to combine the Shenzhen and Shanghai main boards for more liquidity. Lastly, a "second board" for more entrepreneurial companies will soon be launched in Shenzhen. Some 1,500 firms have already applied.

On the demand side, too, change is under way. Today, the A-share market is dominated by 60m generally clueless—and certainly powerless—retail investors. Regulators are going to give them the chance to invest in mutual funds and pension funds run by professionals. After China joins the World Trade Organisation, probably later this year, foreign fund managers will be allowed to compete for this business. If most of the promised reforms to China's stockmarkets are actually carried out, they might even want to.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Sauna sleaze

Mar 1st 2001 | HONG KONG
From The Economist print edition

IT IS never quite clear whom China's shareholders should be more afraid of: their brokers, or the directors who run their companies. Either way, fear is called for. Last month one of China's most respected economists, Wu Jinglian, complained that "China's stockmarkets are worse than a casino." If anyone was surprised by that judgment, it was only because such bluntness is unusual in China.

China's A-share market was the world's best performer last year, in front of Venezuela. Encouraging, you might think. Unfortunately, this was partly due to market-ramping carried out by a handful of powerful insiders. According to *Caijing*, an unusually brave newspaper, the managers of ten big investment trusts took regular trips to the sauna. There—naked, sweaty, and demonstrably unbugged—they rigged the market.

Not that valuations would have been honest in their absence. In January the government's official auditor admitted that at least two-thirds of China's 1,300 biggest state-owned enterprises (SOEs) cook their books. Accountants at independent auditing firms reckon that proportion to be an understatement. Price-earnings ratios are not much use in a country where earnings are whatever a corporate board wants them to be.

Not so much the corporate board, come to think of it, as the "keyman" who calls the shots. He is often the chairman, chief executive and a senior member of the Communist Party all in one. The board of a typical SOE exists mostly to rubber-stamp his plans. Some companies do have independent directors, but if these show up at meetings they are rarely expected to speak. They have no particular reason to, since negligence is not a ground to sue the board; nor, often, is fraud. Class-action suits do not exist in China, and if they did, the country's courts would not know what to make of them. In any case, the keyman and his party friends would have a quiet word with the judge—always assuming that the procuracy was not already a shareholder in the company.

If the China Securities Regulatory Commission (CSRC) has any say, this is not how it will be. Led by some of China's toughest reformers, the commission has in recent months started cracking down on market fraud so hard that the bull market has faltered. Unlike most government departments, the CSRC has few taboos. It has even poached one of Hong Kong's top securities regulators, Laura Cha, to be a deputy chairman. Until recently, appointing to such a high post someone not just from outside the Communist system but from outside the mainland was unheard of. She even carried an American passport, but has now swapped it for a Hong Kong one. Political correctness is not quite as dead as all that, even at the CSRC.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bank reform in Japan

Distress

Mar 1st 2001 | TOKYO
From The Economist print edition

FOR a measure of how painful new bank reforms in Japan might be, look at the story of a single institution, Wakashio Bank. A smallish bank with 31 branches centred around Tokyo, Wakashio already has the distinction of having failed twice in the past dozen years. In its first incarnation as Daiichi Sogo Bank, a mutual savings bank, it lost a bundle through poor property investments and involvement in a price-rigging scam. In 1989 the bank re-emerged as a regional bank called Taiheiyo Bank, only to collapse again in the mid-1990s. It ended up as Wakashio Bank, bailed out by Sakura Bank, a much bigger bank, which provided all of its ¥40 billion ($350m) in capital.

Five years on, Wakashio is in trouble again. One-sixth of its ¥425 billion in loans is non-performing, more than double the rate at other regional banks. Until recently, Wakashio had set aside provisions against these loans, or it had held collateral. Yet this practice has simply kept the loans rotting on its books, which now frightens some of its depositors. So Wakashio will write off three-quarters of its bad debt as early as next month, in order to bring the bad-debt ratio down to 4%. It will sell the loans to the Resolution and Collection Corporation (RCC), a public organisation set up to buy up bad loans, and to several private bidders.

But Wakashio has made a nasty discovery. As of last September, the bank had provisioned for only about one-tenth of its dud loans. Yet it held collateral worth, supposedly, 80% of its bad debts (which still left about 10% of bad debts uncovered). The shock now is that Wakashio may get a mere ¥3 billion-4 billion for collateral it thought was worth ¥39 billion or so. Why the huge discrepancy? Land prices continue their steep decline, whilst much of the bank's collateral is in the form of golf courses and cemeteries—which, with sitting tenants, as it were, are notoriously hard to sell. Wakashio is unable to bridge this gap itself. It has begged Sakura, Fuji Bank and others to help out. Since these banks figure it is cheaper to lend more to Wakashio than to admit they'll never get their original subordinated loans back, they agreed this week to extend ¥64 billion of aid.

Wakashio's experience has painful implications for the rest of Japan's debt-ridden banks. Its decision to write off, rather than to write down, its bad debt is exactly what the new financial affairs minister, Hakuo Yanagisawa, is now prescribing for the whole banking sector. His method would lead to lots of disposals. Even the biggest banks have around half of their bad-debt provisions in the form of collateral rather than cash reserves. Most, like Wakashio, will suffer huge losses when they try to sell these assets.

Property assets, says Brian Waterhouse of HSBC Securities, are hard to put a price on, since market transactions are few. And property auctions can take over two years to complete. Some banks are giving up hopes of reclaiming anything at all. Miyazaki Bank, on the southern island of Kyushu, admits it will fall into the red after fully provisioning for loans to Seagaia, a resort operator which collapsed earlier this month. Although it holds ¥10 billion of collateral on its ¥14 billion loan, the bank warns that "it will be extremely difficult to get anything for the collateral."

With big losses in the offing, can banks afford to go along with Mr Yanagisawa's reform proposals? If Wakashio is any indication, probably not. Mr Yanagisawa continues to insist that the banks do not need, and will not get, another round of public funds to help them out. Instead, he wants other measures to make loan sales easier.

Yet any benefits will almost certainly come too late for smaller banks such as Wakashio, which are already starting to see runs on deposits. Although the government's safety net protecting depositors will not expire until March 2002, that still means one-year deposits taken out after April will be at risk. This is what prompted Wakashio to clean up its books. Other banks will follow suit. They, too, will turn to their bigger brethren for help. But the big banks are none too healthy themselves—at least, not without the large dose of cash that Mr Yanagisawa absolutely promises, swears, repeats till he's blue is not called for.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

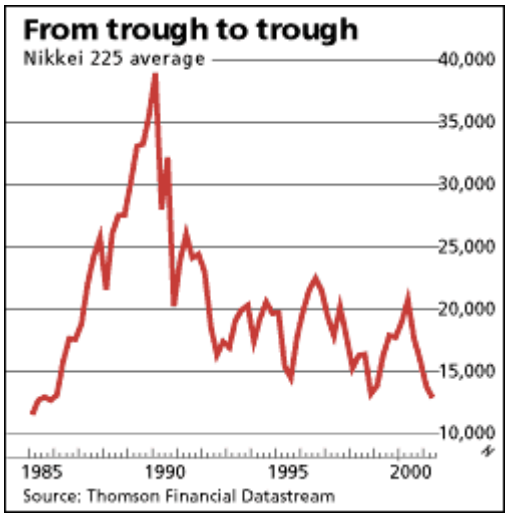
Japan's economy

Stalled, or worse

Mar 1st 2001 | TOKYO
From The Economist print edition

IS JAPAN back in recession? Officials used to brush the question aside. But figures published on February 28th showed that industrial production, by default the most reliable guide to Japan's economic cycle, fell 3.9% between December and January. This, the sharpest drop since 1993, prompted the Bank of Japan to cut interest rates by 0.1 percentage points, to 0.15%, only a day after its governor, Masaru Hayami, had vowed to ease monetary policy no further. But then, what's a tenth of a point?

The economy seems to be hanging by a thread. Weakening demand in America has walloped Japan just as signs of life were beginning to appear among its high-tech manufacturers. Japan's intricate trade relationships with its Asian neighbours, which also live or die by high-tech exports, have amplified the effects. The economics and trade ministry sees no relief ahead. It predicts a big quarter-on-quarter drop in production for the first three months of the year.



A second effect is at work: a dangerously weak financial system. The stockmarket is now at a 15-year low. Japanese investors are rightly worried about the solvency of the country's banks, whose capitalisation fluctuates with the value of their huge shareholdings. As a result, confidence among small and medium-sized companies, which are responsible for employing four-fifths of the workforce, has collapsed. Memories of the financial crisis of 1997-98, during which tens of thousands of firms were abruptly denied credit, are all too fresh.

Signs of a weakening economy are bad enough. Scarier still is the ceaseless muddle among Japanese policymakers. No one will take much comfort from the central bank's rate cut. It raised rates for the first time in ten years only last August. Now the Bank looks a hopeless mess, its economic judgment discredited, and it tacitly admits as much. In a statement this week, it noted the "renewed concern that downward pressure on prices stemming from weak demand might intensify": an admission of sorts that it blundered in raising rates in the first place. The half-hearted size of the cut, meanwhile, simply looks face-saving, and in the worst sort of way—to leave a little wriggle room for Mr Hayami to keep his job.

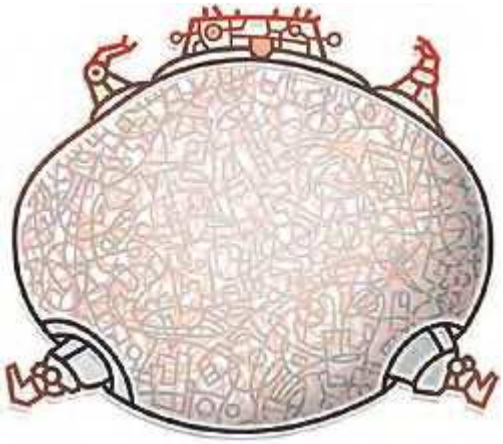
He may yet have to go, paving the way, perhaps, for a more energetic policy, such as printing money. Neither the finance ministry nor the politicians of the Liberal Democratic Party, which dominates the government, are likely to come to the Bank's rescue. Its mistakes are taking the heat off them, for now. Perhaps sensing Mr Hayami's doom, the central bank broke with its taciturn ways this week to return some fire. Structural reforms in the banking system and elsewhere were essential for recovery, it said, adding that "the Bank strongly hopes that such reform efforts accelerate further in a variety of fields." That's telling them.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

From investment boom to bust

Mar 1st 2001
From The Economist print edition



America's productivity gains have been fuelled by a splurge in spending on information technology. What happens if that investment suddenly stops?

FIRMS in America have spent like no tomorrow on snazzy computers and communications equipment. Indeed, in the past five years, investment in information technology has increased by an annual average of around 25% in real terms, accounting for no less than one-quarter of the country's total GDP growth. The recent profit warnings from high-tech firms are therefore rather alarming: their sales so far this year are well below expectations. Is the IT boom turning to bust?

This question is important, for two reasons. First, a severe slump in investment could turn a mild economic downturn into a deeper recession. Second, a fall in IT investment would dampen longer-term productivity growth. Several studies suggest that increases in the amount of IT capital per worker (ie, "capital deepening") have accounted for two-fifths of the total increase in labour productivity growth since 1995. Total business investment has risen to a record level as a share of GDP. If the pace of IT investment now proves unsustainable, productivity growth will fall.

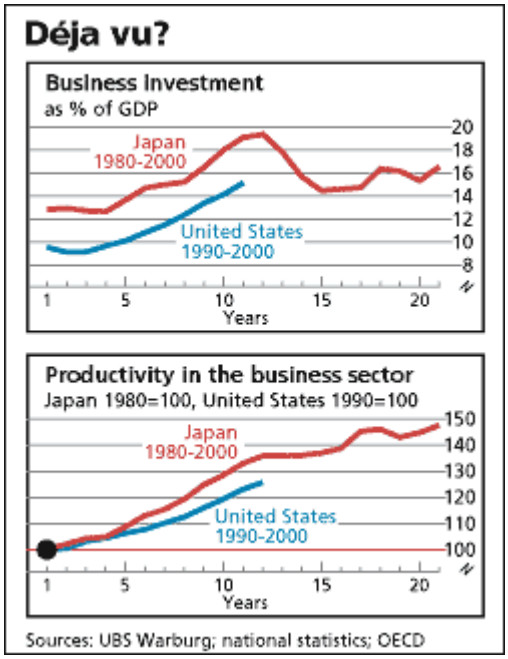
In the fourth quarter of last year, American firms' total capital spending fell for the first time in nine years. IT investment continued to grow, but at a much slower pace. Since June, firms' orders for electronic and electrical goods have fallen by almost 20%, a signal that IT investment will shrink this year.

Business investment usually falls in a downturn, but this time the risks are greater. A growing number of economists think that the tech bubble that is now popping, along with firms' own inflated expectations about future returns, encouraged excessive investment. In recent years, IT investment has closely mirrored the Nasdaq share index. As profits fall and tech shares slide, IT budgets are likely to be slashed.

In recent weeks, American economists have been stressing the differences between Japan's bubble in the 1980s and the American one in the late 1990s. Unlike in America, Japan's bubble engulfed property as well as equities. The country's banking system also started off much shakier than America's today. Yet the parallels between investment and productivity in America and Japan deserve attention.

Japan also enjoyed an investment boom in the 1980s. Japanese firms' investment rose from 13% of GDP in the early 1980s to more than 19% by 1990—a similar-sized increase to that in America, where business investment has jumped from 9% of GDP to 15% over the past decade. The current conventional wisdom is that Japan's investment was a near-total waste; and that, unlike that in the United States today, it did not yield an increase in

productivity growth. Yet figures from an investment bank, UBS Warburg, show that Japan's productivity growth did indeed quicken, from an annual average of 2.1% in the early 1980s to 3.4% in the latter half (see chart). In other words, Japan's productivity growth then was even more vigorous than America's growth of late. Since 1995 America's productivity growth has averaged 2.7% a year.



Double bubble

After its bubble burst at the start of the 1990s, Japanese business investment collapsed and productivity growth stalled. During the past decade, annual labour productivity growth has fallen to only 1%. Is America destined to suffer a similar fate?

One reason why investment in America is unlikely to fall so sharply as in Japan is the different composition of its capital spending. IT equipment has a shorter life than buildings or industrial machinery. A faster rate of depreciation means that to achieve a given reduction in a firm's capital stock, gross investment needs to fall by less. However, as Bill Dudley, chief economist at Goldman Sachs in New York, points out, high depreciation means that gross investment is also larger in relation to GDP. It means that the short-term impact on the economy of a decline in investment is more severe. But any adjustment to the desired size of capital stock may be swifter, so reducing the risk of a prolonged, Japanese-style downturn.

The risk of an IT investment bust is now rising. Profits are shrinking, credit conditions have tightened, and there is growing evidence of a glut in capacity. In recent years America's capital stock has leapt in relation to GDP. Mr Dudley estimates that if firms decided to reduce IT spending by enough to slow the growth in the ratio of the IT stock to GDP back to its average pace of the past decade—ie, still allowing for the capital-deepening process to continue—this would imply an 8% fall in nominal IT spending in 2001. If, on the other hand, firms decided to fix their capital stock in relation to GDP at its 2000 level, that would imply a 20% fall in IT this year.

What does this mean for productivity? Economists at Goldman Sachs have also estimated that if real growth in IT spending falls to zero this year (implying a fall of 5-10% in nominal terms, as IT prices decline), then this would reduce productivity growth by three-quarters of a percentage point compared with where it would otherwise have been. That would still leave a faster rate than in the first half of the 1990s.

However, a downturn in investment has long-lasting effects on productivity growth. For instance, even if the growth in IT investment returns to a robust 15% annual rate by 2003, Goldman Sachs reckons that productivity growth would still remain half a percentage point lower by 2005. If, to take a grimmer scenario, zero growth in IT spending in 2001 were followed by growth of only 5%, then by 2005, productivity growth would be reduced by more than a full percentage point.

America's productivity growth is likely to remain above its level of the early 1990s, unless IT capital spending stagnates for several years. But the further investment growth falls over the next year or so, the more estimates of underlying productivity growth will need to be revised downwards.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The European economy

Odd man out

Mar 1st 2001
From The Economist print edition

THE world's two biggest economies, America and Japan, seem to be sliding dangerously towards recession. Will the euro area follow them?

On the surface, the latest news is grim. In January, unemployment in the euro area rose for the first time in almost four years, to 8.8%. New figures this week also showed that Germany's GDP growth fell to an annual rate of only 0.8% in the fourth quarter of 2000, down from over 4% in the first half. But other economies within the euro area are still thriving. GDP in France and the Netherlands grew at annualised rates of between 4% and 5% in the fourth quarter. As a result, Euroland as a whole probably grew at a fairly respectable rate of around 2.5%. This explains why, unlike in America and Japan, the European Central Bank (ECB) has not felt the need to cut interest rates.

An American recession would clearly dent growth in the euro area, but by less than in some other parts of the world. For a start, the euro area's exports to America amount to only 2.5% of its GDP, so even a sharp fall in American imports would have a limited impact on Europe's overall output.

However, direct trade flows understate the influence of the American economy. In recent years European firms have built up large stakes in American companies, and so a growing share of their profits depends on the fortunes of corporate America. Germany is particularly exposed. The sales of American-based affiliates of German companies are five times bigger than Germany's exports to the United States.

An American recession would also infect Europe through stockmarkets. If American share prices keep sliding, they will probably drag European stocks down too. The good news is that European consumer confidence is less sensitive to swings in share prices than American consumer confidence: Europe's households own fewer shares.

Economies in the euro area will also be cushioned this year by tax cuts, worth altogether a net 0.6% of GDP. These cuts were planned long before talk of recession surfaced in America; the timing, you could say, turned out to be fortunate.

Last, but not least, another reason for hoping that the economies of the euro area will hold up is that they do not suffer from the same sorts of imbalances that threaten to turn a mild American downturn into a recession. In Europe, household saving rates have remained fairly high, and private-sector borrowing has been relatively modest.

Measures of business and consumer confidence signal only a mild slowdown this year. Since last October the average prediction for growth in the euro area in 2001, in *The Economist*'s poll of forecasters, has fallen from 3.1% to 2.6%; this compares with estimated growth of 3.4% last year. Over the same period the average forecast for America has plunged from 3.5% to 1.8% (see chart). Deutsche Bank estimates that even if GDP growth in America is zero this year, the euro area would grow by 2% all the same.

The blame for the slowdown seen so far in Europe cannot be pinned on the United States. Rather, the main culprit is weaker consumer spending following a squeeze on real incomes. In the year to December, the volume of retail sales fell in Germany, France and Italy. Real wages in the euro area have actually fallen over the past year. Inflation has risen, but wage growth has remained relatively modest, thanks to increasingly flexible labour markets.

Growth in the euro area is almost certain to outpace growth in the United States this year. Many Europeans will be pleased about that, but in fact there is little room for complacency. The rise in January's unemployment may turn out to be a blip; if not, a weaker jobs market would soon dampen consumer

confidence.

While growth has remained robust, the ECB's main concerns have been inflation and a weak euro. Headline inflation in the euro area fell in January to 2.4%, but remains above the ECB's ceiling of 2%. Core inflation, which excludes food and energy, rose to 1.6%. Until core inflation stops rising, the ECB is likely to be in no hurry to cut rates—unless, that is, growth suddenly falters.

After regaining about 15% against the dollar between last October and early January, the euro has since slipped back. If it resumes its climb, that would probably encourage the ECB to cut rates, in order to prevent a tightening in overall monetary conditions. If America really does go into recession, the euro might well climb strongly against the dollar. That would further squeeze the euro region's exports, making an interest-rate cut more urgent.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The London Stock Exchange

Clearer

Mar 1st 2001
From The Economist print edition

LONDON'S biggest securities firms have long lobbied for a central counterparty (CCP) for trades done on the London Stock Exchange (LSE). Now they have got one, but they are still unhappy. They want the same for the whole of Europe.

A central counterparty is an intermediary that stands in the middle of all share trades in a given market. This role allows the number of share transactions that need to be settled to be cut drastically. Dealing firms can "net" their total purchases against their total sales. Capital needs to be put up to back the settlement only of the residual trades. This suits the biggest firms. But two failed mergers at the LSE, decision-making by committee and uncertain management, help explain the delay in bringing in such a sensible scheme.

On February 26th the LSE, the London Clearing House and Crest, which settles British equities, launched a CCP. Much needs to be done. It will not be possible to net positions fully until early next year.

London's big securities firms see a streamlining of the LSE's trading structure as a step in the right direction. Yet the biggest savings, of around *euro*1 billion ($920m) a year, would come with a pan-European central counterparty. A group of 24 large banks has acted by forming the European Securities Forum. It is planning to design a pan-European facility, partly in order to stop five of the biggest investment banks setting one up on their own. The plan is ambitious. Though the European CCP is supposed initially to cover all European equities, it wants eventually to cover bonds, derivatives and over-the-counter instruments. Not even American markets have a central counterparty for all financial instruments.

In the face of increasing competition, Europe's exchanges could do with a more efficient trading structure. Euronext, a continental stock exchange that offers central counterparty and netting services via its clearing house, Clearnet, says it is happy to discuss partnerships with other European clearing houses to find a pan-European solution. On the other hand, Deutsche Börse, running Frankfurt's markets, has not yet launched a central counterparty. And merger talks last year between Clearnet and the London Clearing House came to nothing.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Tax beast

Mar 1st 2001 | MOSCOW
From The Economist print edition

YOU might think it reasonable of Russians to regard the tax inspectorate as a form of Antichrist. Doubtless this would have something to do with the officials' evil ways—their mafia-like methods, ski masks, machine-guns and baseball bats—rather than anything to do with, say, high technology.

No, in fact. It is the computerisation of the tax system, notably the use of bar codes to make tax forms readable by machine, that recently alarmed parts of the Russian Orthodox church. To a knowing eye, the three sets of lines that mark the beginning, middle and end of the data on a bar code look like the stripes that represent "six" in binary form. Turn to your Bible, Book of Revelations, and you find that this 666 device is the number of the "beast" which, as the end of the world draws near, will force people to receive a mark on their foreheads and right hands, without which "no man may buy or sell". That last part clinches it. Many thousands of churchgoers, understandably cautious about hastening the end of the world, boycotted the new tax forms.

On February 20th, a theological commission assigned by the church to investigate the matter found "no basis whatever" for the suggestion that the apocalyptic number recurred in every tax code. One of the systems used internationally for the bar-coding of goods in supermarkets could be interpreted as including the number, they noted—but there was no reason why it would crop up more than occasionally in the Russian tax codes. Er, right. Good point.

In seven closely argued pages, they called on employers to be more understanding of workers who declined the tax numbers they were given—but with unusual firmness rebuked the zealots who insisted that everyone must reject their codes or risk damnation. People who condemned others for accepting their numbers were endangering their own spiritual health, the theologians warned. Their physical health as well, most likely: make it lose its temper, and that tax inspectorate can also be a bit of a beast.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

European trade

Zero-sum?

Mar 1st 2001
From The Economist print edition

PASCAL LAMY has done it. After five months, the European trade commissioner has pushed through huge tariff reductions for 48 of the world's poorest countries. All goods but arms—with exceptions for bananas, sugar and rice, to be phased out later—will be imported into Europe free of tariffs. And you thought that Europe's external trade policies were unenlightened.

Exactly how much will the developing countries gain? Ah well. Not very much, actually. Michael Finger at the World Bank says that once the new regime comes into force on March 5th, the 48 poorest countries' exports will grow by 15-20%, or about *euro*1.5 billion ($1.4 billion), over the year. That is fine, but Mr Finger notes that most of the countries in the new plan make the same products as other poor economies currently exporting to Europe. He predicts that virtually all the poor countries' upsurge in exports will come at the expense of other developing countries, many of them only slightly better off than the poor 48. Sugar exporters in Swaziland, which is not one of the 48, have already expressed concern.

Research under way at the United Nations Conference on Trade and Development suggests that the amount of the shift could itself be exaggerated. Stefano Inama, who manages UNCTAD's project on market access, notes that poor countries often fail to fill Europe's existing preferential import quotas. They lack the manufacturing capacity or the product variety to exploit them fully. Mr Inama also fears that some crops will be transferred from excluded countries into the chosen 48, for duty-free export to Europe.

Messrs Inama and Finger both worry that subtler forms of protection will continue. Non-tariff barriers such as sanitary regulations (for foods) and rules-of-origin restrictions (for textiles) will continue to limit the volume of poor countries' exports. Indeed, the European Commission's own paper on the impact of the new regime states that production in the affected countries frequently fails to comply with European marketing standards.

So Mr Lamy's plan may do no more than move a little bit of income from some poor countries to some even poorer ones. Other benefits are possible. It may raise the profile of the poorest countries' exports, improve their trading infrastructure and encourage the cannibalised countries to move up the export food-chain. The biggest benefit, however, may accrue to Mr Lamy. He can bank any goodwill arising from the new policy and cash it later, when trying to launch a new round of multilateral trade talks.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets in America

Confidence tricks

Mar 1st 2001 | NEW YORK
From The Economist print edition

BY SOME estimates, the fees earned last year by Wall Street's investment banks from underwriting the initial public offerings (IPOs) of technology companies exceeded the combined sales of those firms. Unless the Nasdaq soon stops plunging and rallies enough to revive the IPO market, those banks' profits will plummet. Some Wall Street economists say that the only way for the United States to avoid a deep recession is for the Federal Reserve to cut interest rates by enough to get the Nasdaq soaring again.

Each depressing piece of economic data brings with it talk that the Fed will cut rates before its next scheduled meeting, on March 20th. The public comments of Alan Greenspan, its chairman, certainly foster hopes of a Nasdaq bounce, sooner or later. This week, in congressional testimony, he reiterated his belief that investment in new technology will produce strong, long-term growth in corporate profits, boding "well for continued capital accumulation"—and, presumably, for shares. Mr Greenspan's comments look designed to ooze confidence and prevent panic. Any reluctance now to admit that last year's interest-rate increases were meant in part to burst a Nasdaq bubble is understandable.

Did a slowing economy cause Nasdaq to fall, or was it the other way round? Blaming Nasdaq is plausible when you consider the impact of a stockmarket fall on consumer confidence, which now seems to be at recessionary levels. The connection between Nasdaq and consumer confidence, and hence between Nasdaq and aggregate demand, does seem compelling (see chart), yet economists may be exaggerating it. Most of the drop in consumer confidence occurred several months after the Nasdaq bubble burst. It may have owed more to a weakening jobs market than to a stockmarket "wealth effect". Besides, to focus solely on the Nasdaq overstates the scale of any negative wealth effect during the past year. The broader Wilshire 5000 index, which better reflects the exposure of investors to American shares, has fallen by much less than the Nasdaq.

Where the bursting of the Nasdaq bubble has really hurt is through its impact on technology spending, Robert Barbera, an economist at Hoenig, an investment bank, points out. Capital, in effect, was free to technology firms when venture capitalists bet on multiplying their money within months. At the same time, "old economy" firms spent heavily on technology to avoid, as they saw it, being killed by new rivals. Whatever Mr Greenspan says, a big chunk of this demand will not return even after the current "adjustment" in the economy is over.

Worse still for hopes of a Nasdaq recovery, says Mr Barbera, profit growth is likely to be on a much lower long-term path than the annual rate of 25-30% that analysts projected until recently. In future, tech firms' employment costs are likely to be higher, because workers will be less willing to take share options in place of cash. Firms will also find it harder to get away with the creative accounting that has enabled many, for instance, to book revenues but not costs in a merger. The books were cooked, and Nasdaq investors may find you can raise a soufflé only once.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Just press print

Mar 1st 2001 | MENLO PARK
From The Economist print edition

The ability to print computer components, rather than making them on silicon wafers, could lead to lighter, cheaper computers—and you could even roll them up

WHICH invention had the greater impact: the printing press or the computer? Now imagine the potential impact of being able to combine the two and mass-produce computers almost as easily as newspapers, by printing them out on to thin films of plastic. That goal is what Rolltronics, a firm based in Menlo Park, California, has set out to achieve. It hopes to do this by extending a manufacturing technique, called "roll-to-roll" processing, so that it can be used to make computer components currently made in the form of silicon chips.

Roll-to-roll, as its name suggests, involves winding a continuous roll of flexible material (such as paper, plastic or metal foil) from one spool to another. Along the way, the material is subjected to a series of manufacturing steps. This approach is used to do things from printing newspapers to coating the insides of potato-crisp bags. Roll-to-roll manufacturing is also used to create flexible wiring, such as the transparent plastic "ribbon" connectors seen inside ink-jet printers. Rolltronics plans to take the next step, and extend the process to make flexible logic circuits, memory and other components.

Compared with the traditional approach, in which chips are made in batches in expensive factories, roll-to-roll processing involves far lower set-up costs, and can be more easily scaled up. So if it can be extended to produce computer components, it would be a cheap and fast—not to mention flexible—way to make electronic devices.

Soul of a new machine

A roll-up computer requires four distinct elements, says Michael Sauvante, Rolltronics' boss. It needs flexible logic circuitry (to do the actual computing), flexible memory or storage, a flexible power source, and a flexible display. This last element is the focus of much attention from researchers trying to make "digital paper" that can be reconfigured to display arbitrary text and images. Rolltronics will leave others to develop this technology. The power source is also taken care of: several firms make thin-film batteries, which could be recharged by flexible solar cells already being manufactured in a roll-to-roll process by Iowa Thin Film Technologies (ITFT), a company based in Boone, Iowa. So Rolltronics has formed a partnership with ITFT to concentrate on the two remaining pieces of the puzzle: logic circuitry and storage.

Making flexible circuitry is difficult because logic circuits are traditionally made of transistors etched into a crystalline silicon wafer, which is rigid. But it is possible to lay down a thin layer of silicon on a flexible plastic sheet, through a process called vacuum deposition. This silicon can then have transistors etched

into it in the usual way. The problem, however, is that the silicon layer is amorphous, rather than crystalline. This affects its electrical properties, and means the transistors must be much larger, and switch much more slowly, than the transistors in a conventional chip—bad news if you are trying to build a computer. And while amorphous silicon can be turned into crystalline silicon by heating it, the high temperature required causes plastic to melt.

One way around this is to devise novel transistors that are themselves made of plastic, and therefore flexible. Rolltronics is taking a different approach. The company has licensed several patents from America's Lawrence Livermore National Laboratory, where a team led by Paul Carey devised a clever way to turn amorphous silicon into the crystalline kind without high temperatures. By zapping the silicon with a laser it is possible to heat it, and cause it to form crystals, without melting the plastic. The resulting silicon can be treated with the usual chip-making processes to make transistors that are small, flexible and reasonably fast.

Rolltronics is working towards this flexible circuitry in two steps. To start with, it is developing a roll-to-roll process to make amorphous-silicon transistors on plastic film. Although these will be big and slow, they will have their uses. They could be used to make cheap radio-frequency identity tags—in essence, printable bar-codes that transmit an identifying code in response to a pulsed radio signal. Such tags, the size of a grain of rice, are currently used to tag everything from pets to televisions, and cost a few dollars apiece. Making cheaper tags using roll-to-roll would dramatically extend the range of uses. Amorphous-silicon transistors could also be used to make the "backplane" circuitry inside flat-panel computer displays. At the moment, this circuitry is made on glass. Using flexible plastic instead would be lighter, cheaper and less likely to break in a laptop computer that was dropped.

After that, says James Sheats, a researcher at Hewlett-Packard who is also Rolltronics' chief technical adviser, the next step will be to apply Dr Carey's work and make smaller, faster transistors on plastic film. Dr Sheats is optimistic that it will be possible to achieve performance equivalent to an Intel 80286 microprocessor (with a clock speed of around 10MHz) without too much difficulty. This would be enough for many applications, such as pocket calculators or handheld organisers, and there is room for further improvement.

That just leaves the memory, for which Rolltronics has licensed patents from a group of researchers at the University of Texas led by Allen Bard. Dr Bard and his colleagues have developed a novel form of memory that consists of a thin layer of organic liquid crystal sandwiched between two sheets of glass. Each glass sheet has rows of conducting wires running across it, and the two sets of wires are at right angles, so that a voltage can be applied across the liquid crystal at any chosen intersection. Although the exact mechanism is still not entirely understood, it turns out that illuminating the liquid crystal, applying a voltage across a small region of it, and then turning off the light source causes a small amount of charge to be stored in that region. This means it can be used as a memory.

By replacing the glass sheets with plastic, Rolltronics plans to manufacture a flexible version of this memory using a roll-to-roll process. Its storage potential is enormous: Dr Sheats says that initially, a single layer of memory the size of a sheet of writing paper will be able to store one billion bytes (a gigabyte) of data. Admittedly, this unusual memory requires an internal light source, but the amount of illumination required is tiny and consumes less power than the logic circuits that are used to read data in and out. And as with the flexible circuitry, this technology has commercial applications on its own, in devices such as portable computers or digital cameras.

The long-term plan is to make a complete flexible computer in a laminated sandwich just a couple of millimetres thick. Of course, it is all still vapourware. But it is worth noting that one of Rolltronics' early supporters was Clayton Christensen of Harvard Business School, the champion of the notion of "disruptive technologies"—that is, innovations that take the incumbents in a particular industry by surprise. If Rolltronics' plan pans out, it could prove to be a canonical example.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Eliminating dams

Not so fast

Mar 1st 2001
From The Economist print edition

AT THE base of the Sierra Nevada mountain range in central California, on the south fork of the Kern river, a small green valley sits in marked contrast to the surrounding brown hills. This hidden vale, crowded with willow and cottonwood trees, is home to one of the largest breeding populations of an endangered bird called the south-western willow flycatcher. And it exists only because the Lake Isabella Dam, completed in 1953, created floodplains that allowed this riverside (or "riparian") habitat to flourish.

To America's environmental activists, dams are wicked. Calling for them to be removed has become one of the movement's loudest and most popular demands. Dams affect water quality, reduce species diversity and impede the progress of salmon and other fish as they make their way upriver from the sea. They can also harm downstream ecosystems that evolved to take advantage of a river's sporadic flood pattern. But as the Lake Isabella Dam illustrates, when endangered species are involved there can be competing environmental interests on the other side of the dam-removal debate. Indeed, campaigners are coming to realise that in some instances, removing a dam can do more environmental harm than good.

In California, for instance, where more than 90% of the state's natural wetlands have been lost to development, displaced species have had to make do with whatever habitat they can find. Although the wetlands created by a dam may not be comparable to what was there before the river's obstruction, there is little else left. The same is true in many of the more arid regions of the western United States.

Dam removal can also prove detrimental when the dam is holding back polluted sediments, notes Margaret Bowman of American Rivers, a conservation group. The removal of the Fort Edwards Dam on the Hudson river in New York in 1973 released several tonnes of sediment contaminated with polychlorinated biphenyls (PCBs), extremely persistent organic pollutants that are toxic to fish and other aquatic and terrestrial species. Fishing on the river was banned in 1976, and the clean-up is still underway. As a result of PCB-contaminated sediment a dam in Massachusetts that had been slated for removal was repaired instead.

Dammed lakes can also be important for waterbirds, which use them both as stopovers on their migratory paths and as permanent residences, says Jamie Skinner of the World Commission on Dams (WCD), which has just completed the final phase of a two-year study of the broader impact of dams. Such reservoirs tend to have a less diverse bird population than natural lakes, but they make up 8% of all internationally important wetlands. And it turns out that they play a significant role in drier regions such as South Africa, where the presence of dammed lakes creates year-round habitats for some waterbird species.

Even so, experts warn that whereas some species have thrived in the wetlands that spring up around dams, these tend to be common species, not the rarer ones. The south-western willow flycatcher, says Ms Bowman, is the exception rather than the rule. But situations like the flycatcher's are likely to become more common as riparian habitats and wetlands disappear.

There is no doubt that when a dam is built, it can wreak havoc on the surrounding environment. The WCD estimates that 67% of all dams have a negative environmental impact. The reservoirs they create will flood out natural wetlands and riparian habitats, while downstream the same kinds of habitats will suffer from lack of water. Furthermore, the artificial wetlands created on a dam's floodplains are usually murkier and warmer than the natural wetlands that existed before. As a result, the altered habitat tends to create a setting more favourable to non-native species.

But as Andrew Cohen, an environmental scientist at the San Francisco Estuary Institute in Richmond, California points out, most biologists would agree that while removing dams helps native species, returning the rivers to their natural state is an ideal that, realistically, can never be met. Instead, he says, sometimes it is better to leave an existing dam in place to preserve the species that remain.

Damned if you do, damned if you don’t, so to speak.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Stem cells

Loose change

Mar 1st 2001
From The Economist print edition

CELLS in the body, like workers on the job, can get stuck in a rut, doing the same old thing day after day without prospect of promotion or relocation. When change comes, it can be for the worse: adult cells locked in dead-end positions as skin or kidney cells, say, sometimes take on dramatically different properties, but usually as part of a nastier turn of events, such as cancer.

Alan Colman and his colleagues at PPL Therapeutics, a Scottish biotechnology firm, have been trying to give such cells a second lease on life. At a recent meeting of British fertility experts, they claimed to have found a way to coax adult skin cells from a cow into becoming heart-muscle cells—in the laboratory, at any rate. Such reprogramming of adult cells has long been the goal of those interested in so-called "therapeutic" cloning.

Cloning, or nuclear transfer, involves shifting the nucleus of an adult cell into an egg which has had its nucleus taken out. The resulting cell, or zygote, then has all the genetic material and biochemical machinery it needs to get on with the business of becoming an embryo. It also becomes a ready source of embryonic stem cells which can transform themselves into the different cell types needed to build a body. Most adult cells lack this versatility. But when their nuclei are transferred into eggs, something happens which gives them the potential to get into new lines of work.

Many researchers, and needy patients, are hopeful that embryonic stem cells might one day provide a supply of replacement tissue for organs worn out through disease and old age. Because the transplanted nucleus could come from one of the patient's own cells, the resulting stem cells would be genetically identical to the donor. Therefore any "spare parts" grown from such cells and popped back into the patient might avoid the problem of transplant rejection which comes with genetically mismatched grafts.

But cloning is a troublesome business. Experience with species cloned thus far, including sheep, cows and pigs, shows it to be very inefficient; according to one estimate, it would take 280 human eggs to produce a single line of embryonic stem cells. Human eggs are in short supply, and hard enough to obtain for routine *in vitro* fertilisation, let alone to meet the additional demands of therapeutic cloning.

There are ethical dilemmas to deal with too. Therapeutic cloning is essentially the same as reproductive cloning, but without the final step of implantation in a woman's uterus. Regulations in Britain, which were recently amended to allow research into therapeutic cloning, stipulate that the cloned embryo must end its days in the laboratory within 14 days of creation. Even with this safeguard, together with stern prohibitions on the reproductive cloning of humans in most countries with sufficient resources to do it, many feel that therapeutic cloning is a step too far.

If researchers understood what exactly happened in the "reprogramming" process to reinvigorate the transplanted nucleus, they might be able to repeat it on adult cells directly, without having to go through the cloned embryo step. This is essentially what Dr Colman claims to have done, creating a line of cells which, in the test tube, look like embryonic stem cells, and some of which turn into a cluster of heart cells that beat. How Dr Colman's team has done this is a mystery, since the group will not reveal its method until its patents have been sorted out. Even Dr Colman is unsure whether he really has stem cells on his hands: he needs to show that the altered skin cells can produce other cell types, as well as heart cells.

Despite this uncertainty, many have greeted PPL's work as a way around the tricky business of working with stem cells derived from human embryos, cloned or otherwise, causing the firm's share price to leap. But John Gearhart, a stem-cell expert at Johns Hopkins University in Baltimore, warns that it would be rash to give up on human embryonic research, which is showing promise in treating animal models of paralysis and other disorders—though scientific and commercial obstacles mean that routine therapy for humans is still far off. When it comes to stem cells, it is far too soon to write off, or buy into, any one approach.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The cost of fur

Mar 1st 2001
From The Economist print edition

FUR coats have fallen from grace in many parts of the world, but chilly northern nations continue to farm millions of mink for their pelts. The animals are housed in barren cages that provoke controversy and protest from animal lovers, but fur farmers insist that mink are completely adapted to life behind bars. What do the animals themselves feel about their surroundings?

To answer this, Georgia Mason of Oxford University and her colleagues have applied a little economic theory. Animals, like human consumers, have to make the most of limited resources. Instead of money, they trade physical exertion and time. The things they want depend on the environment they evolved in. Wild mink swim, roam, delve into tunnels and hunt, so their commodities presumably include water, space, tunnels and prey. Caged mink, claim animal advocates, are frustrated without these resources, and suffer as a result. Fur supporters contend that such “wild” urges have been bred out.

To settle the debate, Dr Mason and her colleagues treated their animals to life with a water bath, tunnel, chewable toys and an extra straw-lined bed in addition to their normal cage. They regarded the mink as consumers, recording how often they visited the extra cages containing each of the “treats”. The mink had to pay for their treats by pushing against heavy doors to gain access. By varying the weights of the doors, the researchers could measure microeconomic variables such as consumer surplus and reservation price, which reveal how much consumers value a commodity. Their results are published in this week’s *Nature*.

Water, it turned out, matters the most to mink—and not merely to drink. They refused to be thwarted by increasingly heavy weights, and continued to force doors open in order to swim. In human terms, the mink deemed the water bath to be a staple such as bread, for which consumers continue to pay the asking price even when the cost goes up. By contrast, the tunnel was more readily forsaken by the mink when the going got tough, much as a person might forgo restaurant meals when prices rise. The other treats were intermediate in the value placed on them.

Dr Mason believes that knowing an animal’s willingness to pay costs is as close as science is likely to come to an accurate estimate of an animal’s own view of the situation. It provides a direct insight into what gives it pleasure, she says, since pleasure has probably evolved to motivate cost-benefit decisions in the way that fear evolved to motivate animals to flee, and hunger to keep them fed. Indeed, depriving the mink of their swims caused as much physiological stress as denying them food. When the door to the water bath was locked for a day, the mink’s urine was collected and analysed for cortisol, a hormone associated with stress. Cortisol rocketed to the same level as when food was withheld for 24 hours.

Fur farmers with a conscience have one idea still to cling to. Meaningful economic decisions are possible only when consumers are familiar with the available commodities. Exposure to the treats may have activated desires in the experimental mink that would otherwise have lain dormant. Farmed mink, on the other hand, never know any alternative. For them, swimming may be “out of sight, out of mind”.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

<IMG ALT=

American lives

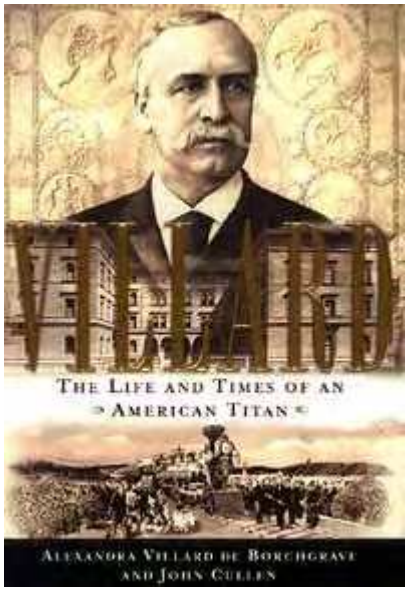
Left and right

Mar 1st 2001
From The Economist print edition

VILLARD: THE LIFE AND TIMES OF AN AMERICAN TITAN
By John Cullen and Alexandra Villard de Borchgrave

Nan A. Talese/Doubleday; 414 pages; $30

Buy it at
Amazon.com
Amazon.co.uk



SHE has excellent reasons to take pride in her priggish, pushy ancestor. Unpleasant fellow though he undoubtedly was, Alexandra Villard de Borchgrave's great-grandfather, Henry Villard, did the United States several good turns.

Villard was an abolitionist but he never shared the common illusion in the northern states that the Union forces were set to score a quick, easy victory over the slave-holding South in the civil war. As a notably brave, as well as opinionated, battlefield reporter for several newspapers, he did as much as anyone to dispel this dangerous Yankee complacency. The confederate dead at Perryville, Kentucky, he wrote in 1862, provided "awful proof of the blind heroism, born of fanatical devotion to their bad cause, with which the rebels faced—yea, courted—death." William Tecumseh Sherman, the unionist general who laid waste to Georgia, admired his hard-headedness and they became lifelong friends.

In business, Villard was just as intrepid and astute. After he had won, lost and regained his fortune on the railroads, he remained willing to take great risks. At a time when American financiers still regarded electricity as a fad, he did a lot to persuade German investors, led by Deutsche Bank, to back the commercial exploitation of Thomas Edison's inventions.

These success stories are not, however, the most interesting part of Villard's life. As Ms de Borchgrave and her co-author, John Cullen, tell it, his early years are even more compelling. When he arrived in America from Bavaria as a bumptious young man on the make, he was nearly penniless and spoke no English. Yet neither his lack of money nor his monoglot German proved serious handicaps.

German-American communities were then as self-contained and supportive as some Hispanic-American communities are today. Villard, whose pre-American name was Heinrich Hilgard, had been a rebellious student with strong anti-monarchist views during the European uprisings of 1848, and among the communities who befriended him was a leftist group of farmers near Belleville, to the east of St Louis.

Because these farmers had received the best education that Germany then had to offer, with its emphasis on the languages of ancient Greece and Rome, they were called *die lateinischen Bauern*. These Virgil-quoting pastoralists were noblemen, doctors, lawyers and judges, former university professors, school teachers and musicians. What they had in common, along with high levels of education, progressive political attitudes and heterodox views on religion, was, the authors say, "an extremely low level of knowledge related to the business of farming." Many, predictably, made a hash of raising corn or cattle. But these landed failures soon turned their cultivation to use in other fields, none more successfully or colourfully than Henry Villard. His story is worth telling and in this biography it is told well.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com <IMG ALT=

World politics

Mar 1st 2001
From The Economist print edition

Five new works underline the growing importance of shared values and standards—or their absence—in international affairs

A DILEMMA for commentators on the left is what to think of outsiders' military intervention (a bad thing) which is designed to prevent (a good thing) government oppression or civil war. Noam Chomsky, writing about two such actions in Kosovo and East Timor, laments that the West, especially America, is not consistent in its foreign policy. Far from acting with a "saintly glow", he says, it is driven by self-interest. The West would never bomb Turkey, Israel or Colombia, however much those countries' governments abused their citizens. So be suspicious of all such action. But Mr Chomsky ignores one of the largest interventions—by the British and the UN in Sierra Leone—and one, arguably, which does not serve outsiders' interests. That is a revealing case, too, of the mixed standards of the West.

THIS annual report by researchers at the green-minded Worldwatch Institute, based in Washington, DC, is both gloomy and optimistic. It catalogues current environmental and social problems across the world. Massive inequalities of wealth, debt burdens, fresh-water pollution, persistent hunger for over one billion people, and the need for new fuel sources and means of transport are each described in a tidy, fact-filled chapter. The writers believe on the whole that damage to nature and gross inequalities of wealth should be, and can be, solved together. If individuals, businesses and governments co-operate, they write, solutions can come "at exponential rates". Small successes, such as micro-credit lending to the poorest countries have already brought returns.

"ARE HUMAN RIGHTS UNIVERSAL?" By Thomas M. Frank.
Foreign Affairs; January-February 2001; Council on Foreign Relations, New York; $7.95

THOMAS FRANK contributed this piece to an excellent collection of articles in the most recent *Foreign Affairs* which addressed the "globalisation gap"—the division between those who welcome and can benefit from what is known as globalisation and those who cannot. He argues that the idea of universal human rights has been spread by "universal education, industrialisation, urbanisation, the rise of a middle class, [and by] advances in transportation and communications." In other words globalisation helps push the idea of universal rights. Those who resist them, such as Islamic extremists, fear that human rights are merely a western imposition of values. They are wrong, says Mr Frank, because there is nothing intrinsically western about rights against torture, discrimination and repression. But the West is in a strong position to promote these rights, with argument, example and political pressure.

AMNESTY INTERNATIONAL celebrates its 40th birthday this year with, among other things, a history by Jonathan Power. He tells how Amnesty started with one British lawyer's efforts to help two Portuguese students. It now has nearly 400 staff, over 1m supporters in 160 countries and the clout to make governments and the public take note of torture, murder and other abuses against civilians. Mr Power focuses on revealing episodes, such as the Pinochet case, which shattered the certainty that heads of state are immune from prosecution. Other chapters describe Amnesty's work in Guatemala, the Central African Republic, Britain and the United States. Amnesty has made mistakes, for example in its relationship with the German Baader-Meinhof terrorists, but, like water dripping on a stone, it is slowly changing the world.

THIS is the most academic of these books, and the oldest (it came out in 1999).

But it has caused a stir in its field and may be the most important. Alexander Wendt distinguishes the strength conferred by shared ideas from that brought by things such as tanks and soldiers. As a “constructivist”, he believes that the greatest influences in international affairs are often social or “constructed” facts. Insubstantial as they are, ideas can be very powerful indeed. Many previous theorists have ignored social factors and rejected the idea of international society, preferring to see the world as an “anarchy” of states operating without moral or social restraint. But even anarchy, argues Mr Wendt, is a social construct—and anything which is the product of our ideas can be changed, if we want to change it strongly enough.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

Farming and history

Farmers' curse

Mar 1st 2001
From The Economist print edition

TO HEAR Hugh Brody tell it, factory farming is not the problem but farming itself. He is a renaissance man struggling to breast the waves of contemporary specialisation. He is a much-travelled writer, documentary film maker and field-worker, deeply passionate and knowledgeable about his primary subject, the hunter-gatherer people of the Canadian Arctic and sub-Arctic. He is also widely read in anthropology, philosophy, psychology, economic history, linguistics, literary criticism and theology.

"The Other Side of Eden" draws on all parts of Mr Brody's intellectual life. It is sustained by a profound admiration and affection for hunter-gatherers—individually, collectively, philosophically and spiritually—and by a barely suppressed rage at what Mr Brody sees as the other, "cursed" (as explained in Genesis) force in the human story: farming. The farmers' system and philosophy, he insists, have condemned them to go forth and multiply, peopling the earth and expanding their domain to the detriment of hunter-gatherers, whose philosophy, based on respect for nature and for the equality and freedom of each individual, including children, was no match for the rapacity, technology and productivity of the newcomers.

Mr Brody does not, however, advance his position by means of conventional argument. There is no direct assault, logically proceeding from issue to issue, with facts marshalled in a scholarly or quasi-legal fashion. Rather, he circles his prey, returning again and again to the same issue, firing an arrow here, knocking off a chip there and waiting, one feels, for the walls of Jericho finally to collapse at the nagging of his persistent trumpet.

The sympathy of many readers will be engaged by Mr Brody's anecdotes, by the charm of the personal portraits he paints, by his evident humanity and by the plausibility of his thesis. He maintains that "our" materialistic and egotistical civilisation has much to learn from the more harmonious and generous culture of the hunter-gatherers; and that the curtailment and brutalisation of that culture, both in the wake of the agricultural revolution 12,000 years ago and then again in the modern colonising era after 1492, should weigh heavily on "our" consciences.

Those who like their truths conveyed in more conventionally rigorous terms will be frustrated by Mr Brody's method, which, though it builds up a head of emotional steam, seems to dodge the final blast of the trumpet for which we feel we have been prepared. At the end Mr Brody says that "without the hunter-gatherers, humanity is diminished and cursed; with them we can achieve a more complete version of ourselves." Yet he never quite spells out what is nonetheless strongly implied: that the agricultural revolution led mankind astray ("out of Eden"), that the industrial revolution compounded this plunge into aggressive acquisitiveness, and that we should be better off and better people if neither of these things—the two main events in human economic history—had occurred.

It is hard to attach much credence to a counterfactual proposition on such a heroic scale, implying as it does the non-existence then and now of all but a fragment of the human race, and the non-occurrence of almost everything known as "civilisation", warts and all. But that need not stop you enjoying Mr Brody's book, even if you hesitate to put him in charge of your destiny.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

Donald Bradman

Mar 1st 2001
From The Economist print edition

Sir Donald George Bradman, the greatest batsman, died on February 25th, aged 92

Hulton Getty

LOOKING at a picture of Donald Bradman in his heyday, perhaps the first thing you notice is that he is not wearing the armour that makes cricketers these days resemble Hannibal Lecter. Cricket seemed less brutal then; it still retained some of its flavour of a summer's game "invented by the English to give themselves some concept of eternity", as an anonymous wit put it. Would Sir Donald, as he subsequently became, have done so well in modern conditions, creating records that are unlikely ever to be beaten? No one knows, and to take sides can lead to a bar-room quarrel. But it is reasonable to say, under the journalist's protection of fair comment, that he would have had a tougher time of it, as indeed he did during the great bodyline bowling epic.

Cricket historians tend to hasten over this episode as being unworthy of the game. But it has persisted in public memory, if only because it is a drama easy to understand without needing to know the more arcane aspects of the game. Here was young Bradman, aged 24 and already a batting phenomenon feared wherever cricket was played, which in those days was at least all of the British empire. He was the weapon with which Australia looked forward to crushing the English team on its visit in 1932-33.

The English captain, Douglas Jardine, though, was equally determined to humiliate the Australians. Whether he called them "the convicts" has never been confirmed. It would have been in character. As the Australians sneeringly observed, he was a toff. Jardine decided to use a tactic called "leg theory". Despite its fancy name, in essence this amounted to sending down a very fast ball aimed at the batsman. Trying to avoid the missile, the batsman would fumble and deliver a catch to a nearby fielder.

The Australians were dismayed as their stars hobbled off the ground wounded. Even their Don was hit. Worse, he wasn't getting the huge scores he was used to. One time he managed only 13 runs against the English bowling tornado Harold Larwood. The dispute became political. Words were exchanged between the British and Australian cabinets. Eventually things calmed down. Bodyline bowling, it was seriously agreed, was not cricket.

The heroic years

Less serious people said it had been jolly exciting and welcomed home the victorious Jardine. But new rules ended bodyline. Jardine and Larwood were sacrificed from the English team. Donald Bradman resumed getting impossible scores. Australia won the next six encounters with England. A kind of awe developed around this self-taught batsman from the Australian outback whose very presence on the field depressed England's finest. Stories of his prowess reached the United States, which also has its favourite bat-and-ball game. An impressed observer on the *New York Times* wrote, "He simply keeps hitting and running until some sensible person in the stands suggests a spot of tea."

His more adulatory fans have suggested that not only was Sir Donald the greatest of cricketers but perhaps the greatest of all sportsmen, a claim that might be disputed by admirers of Pelé and Joe DiMaggio. It is said his exploits may have cheered up Australia in the 1930s, when the country was badly hit by the Great Depression. No one wanted its raw materials, and about a quarter of the workforce was jobless. But did families feel less hungry when word came over the radio that their hero had hit another couple of centuries?

Some who lived then have said this happened, and Sir Donald's beatification as an inspirational force in time of trouble has been much paraded since his death this week. "Australia's Churchill," declared a normally sober cricketing writer. John Howard, the Australian prime minister, simply thanked God for him and ordered a state memorial service. Sir Donald was Mr Howard's perfect Australian, anti-republican, admirer of royalty and politically a conservative. In every way except his mastery of the bat he seems to have been a fairly ordinary chap. As athletes do, he slowed down while quite young. In 1948, when he was 40, he was dismissed without scoring in his last game against England.

Sir Donald prospered as a stockbroker and for many years helped to select Australia's cricket team. He saw cricket developing into the gladiatorial game it is now, with fast bowlers challenging the restrictions brought in to end bodyline. Batsmen, in turn, were seeking more reliable protection than the rulebook. As well as leg-pads and gloves, a player these days will wear a helmet with face guard, thigh pad and protection for chest, arms and abdomen. Running at all requires a special effort.

The game that in the 18th century had featured underarm bowling by players in lace shirts and knickerbockers has sought to keep its audience interested. As bowlers get ever faster, padded suits and strengthened helmets could make cricketers look like American footballers. Players may be wired up to get advice from their trainers. Cricket may move indoors to avoid the weather. Whether Sir Donald would have coped will be argued. The luxury of being remembered is his reward for being the best of his time.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

PRICES AND WAGES

Mar 1st 2001
From The Economist print edition

Germany's rate of consumer-price inflation jumped to 2.6% in the year to February, the highest since December 1994. In France, however, the inflation rate fell to 1.2% in January. Average wages in Canada increased by only 1.7% in the year to December, implying a pay reduction in real terms.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 4.6	+ 4.1	+10.2	+ 8.4 Q4	– 3.3	+ 5.0 Q4
Austria	na	+ 2.8 Jan	+ 2.1	+ 1.7	+ 2.1	+ 3.2 Jan	+ 1.9	+ 2.2 Dec
Belgium	– 0.2	+ 2.3 Feb	+ 2.6	+ 2.1	+ 9.0	+ 7.1 Dec	+ 3.7	+ 1.6 Q4
Britain	+ 1.3	+ 2.7 Jan	+ 2.4	+ 2.2	+ 0.2	+ 1.9 Jan	+ 7.0	+ 4.4 Dec
Canada	+ 0.3	+ 3.0 Jan	+ 2.7	+ 2.4	+ 2.4	+ 3.1 Jan	– 3.0	+ 1.7 Dec
Denmark	+ 1.3	+ 2.3 Jan	+ 2.9	+ 2.3	– 1.0	+ 4.1 Jan	+ 7.0	+ 3.8 Q3
France	+ 0.7	+ 1.2 Jan	+ 1.7	+ 1.4	+ 0.5	+ 3.6 Jan	+ 4.6	+ 5.3 Q3
Germany	+ 2.8	+ 2.6 Feb	+ 2.0	+ 1.5	+ 0.8	+ 3.8 Jan	na	+ 2.3 Dec*
Italy	+ 3.1	+ 3.0 Jan	+ 2.5	+ 2.1	+ 4.2	+ 5.4 Jan	+ 0.9	+ 1.7 Dec*
Japan	+ 0.7	– 0.2 Dec	– 0.7	– 0.4	+ 1.4	+ 1.2 Jan	na	+ 1.8 Dec
Netherlands	+ 2.3	+ 4.2 Jan	+ 2.5	+ 3.0	+ 3.6	+ 6.8 Jan	+ 1.4	+ 3.0 Dec
Spain	+ 3.0	+ 3.7 Jan	+ 3.4	+ 2.9	+ 4.8	+ 5.0 Jan	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.7 Jan	+ 1.3	+ 1.7	+ 6.7	+ 3.7 Dec	+ 3.4	+ 2.4 Dec*
Switzerland	+ 0.4	+ 0.8 Feb	+ 1.6	+ 1.4	nil	+ 1.4 Jan	na	+ 0.2 1999
United States	+ 3.3	+ 3.7 Jan	+ 3.4	+ 2.5	+ 4.8	+ 4.8 Jan	+ 4.8	+ 3.9 Jan
Euro area	+ 1.9	+ 2.4 Jan	+ 2.3	+ 1.9	+ 5.7	+ 5.4 Dec	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.1	+ 3.3 Jan	na	na	– 1.1	+ 4.7 Jan	+ 3.0	+ 4.3 Q4*
Greece	+ 6.6	+ 3.4 Jan	na	na	+ 8.6	+ 6.7 Dec	na	na
Iceland	+ 2.8	+ 4.1 Feb	na	na	+ 2.8	+ 4.4 Jan	+ 6.2	+ 9.3 Jan
Ireland	+ 3.0	+ 5.2 Jan	na	na	– 0.2	+ 3.8 Jan	+17.5	+ 7.0 Q2*
Luxembourg	+ 5.6	+ 2.9 Jan	na	na	+ 0.3	+ 5.0 Nov	+ 7.7	+ 8.4 Oct*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+15.0	+10.2 Q4	+ 1.8	+ 1.6 Q4
Norway	+ 4.2	+ 3.4 Jan	na	na	na	+ 3.3 Jan	+ 2.9	+ 3.8 Q3*
Portugal	+ 5.7	+ 4.4 Jan	na	na	+16.1	+13.4 Dec	na	+ 3.0 Nov*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer

无法显示网页

您正在查找的页当前不可用。 网站可能遇到支持问题，或者您需要调整您的浏览器设置。

请尝试以下操作:

- 单击 刷新按钮，或稍后重试。
- 如果您已经在地址栏中输入该网页的地址， 请确认其拼写正确。
- 要检查您的网络连接，请单击**工具**菜单，然后单击 **Internet 选项**。在**连接**选项卡上，单击**设置**。 设置必须与您的局域网 (LAN) 管理员或 Internet 服务供应商 (ISP) 提供的一致。
- 查看您的 Internet 连接设置是否正确被检测。您可能设置让 Microsoft Windows 检查您的网站并自动发现网络连接设置(如果您的网络管理员已经启用此设置)。
    1. 单击**工具**菜单，然后单击**Internet 选项**。
    2. 在**连接**选项卡上，单击**LAN 设置**。
    3. 选择**自动检测设置**，然后单击**确定**。
- 某些站点要求 128-位的连接安全性。单击**帮助**菜单，然后单击**关于 Internet Explorer** 可以查看您所安装的安全强度。
- 如果您要访问某安全站点，请确保您的安全设置能够支持。请单击**工具**菜单，然后单击 **Internet 选项**。在“高级”选项卡上，滚动到“安全”部分，复选 SSL 2.0、SSL 3.0、TLS 1.0、PCT 1.0 设置。
- 单击上一步按钮，尝试其他链接。

找不到服务器或 DNS 错误
Internet Explorer